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American Banker

The Daily Financial Services Newspaper

Reprinted from October 20, 1984 — October 29, 1984 149th Year

New Poll Looks at Consumer Attitudes on Changing Financial Services World

A nationwide poll of 1,000 American households commissioned by the *American Banker* finds much of the public confused by the changes that are occurring in the financial services world as a result of deregulation and increased competition.

A lack of consumer awareness about the business of banking, its problems and its policies, was evident throughout the responses people gave in 18-minute telephone interviews. The survey was conducted this summer by Reichman Research, a New York-based opinion research firm.

One of the most important findings in the *American Banker* survey is the fact that Americans continue to place their faith and their funds primarily in federally insured depository institutions, especially commercial banks.

But about a third of the respondents say they have less confidence in the banking and financial system than they did a few years ago. As reasons for this decline in confidence they cite the problems of banking in the past few years, particularly foreign loan difficulties and government assistance to some banks that got into trouble.

While overall awareness of these problems is still low among the general public, the high level of publicity surrounding these issues seems to have affected enough people so that half vote against banks being given authority to offer non-traditional services, such as selling real estate or insurance.

The articles reprinted here were written By Laura Gross, Associate Editor

Another reason for the opposition to new powers for banks could be that the public seems quite happy to shop in many places for financial services. There may also be some concern that if banks are allowed to offer new services, this could adversely affect the core function for which people still look to banks — security of deposits.

A majority of American consumers perceive banks more as private businesses than as utilities. Nonetheless, they believe that banks and other federally insured depositories are special, that these institutions hold a unique position in the economy and society, and therefore should be prevented from too much diversification.

Despite this sentiment, most Americans seem to have a laissez faire attitude when it comes to

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How Consumer America Views the Changing Financial Services Industry

This survey marks the first time that the *American Banker* has undertaken consumer research. Its goal was to discover how American consumers are responding to the changes in the financial services industry.

Conducted by Reichman Research Inc., a New York-based opinion research firm, the telephone survey polled 1,000 consumers, asking about their confidence in the banking system and their feelings about expanding powers for banking institutions.

Consumer Confidence in Banking Down

Risky Foreign Loans, Many Bank Failures Seen as Reasons

Americans are more worried today than they used to be about the health of the banking and financial system, according to the results of a nationwide study commissioned by the *American Banker*.

The survey found a groundswell of consumer concern over the rising tide of bank failures and the dubious quality of some foreign loans. The high level of national debt was also mentioned by some people as a cause for concern.

In fact, just under a third of American consumers say they have a great deal of confidence in the banking and financial system. While half of the population report some confidence, a sixth say they have very little or no confidence at all.

More importantly, the number of people who say they have lost confidence over the past few years is double the number who say they have gained confidence. Nearly half report no change.

These responses are from a nationwide telephone poll of 1,000 households conducted for the *American Banker* this summer by Reichman Research Inc., a New York-based opinion research firm.

The findings about confidence in and the health of the system come from answers to three questions. The first asked consumers how healthy they thought the U.S. banking system is today. The second asked how much confidence they have in the system. And

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Third of Public Likens Banks to Utilities

Majority Says 'Yes' To Lifeline Banking

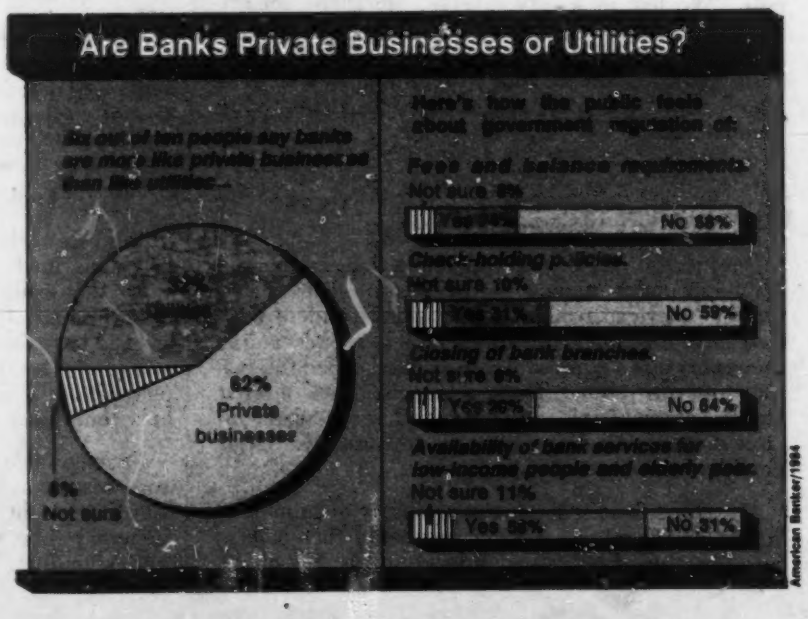
Two-thirds of the American public perceives commercial banks as private businesses. One-third thinks they are more like utilities, according to the *American Banker's* consumer opinion survey.

Also, a majority of respondents vote to keep government out of regulating retail banking policies on service fees, minimum balance requirements, branch closings, and check holding.

But there is one exception: In the case of the low-income and elderly poor, a majority of consumers want the government to require banks to offer affordable or "lifeline" banking services. Opinion is split, however, over who should subsidize this, with about two-fifths of the proponents saying "the government" and somewhat fewer saying "the banks."

These are among the findings of the *American Banker's* nationwide poll of 1,000 households that sought to determine how consumers are responding to the changing world of financial services. The survey was conducted this summer by Reichman Research

▶→ Utilities: Page 10


Are Banks Private Businesses or Utilities?
Six out of ten people say banks are more like private businesses than like utilities...
32% Utilities
62% Private businesses
6% Not sure
Here's how the public feels about government regulation of:
Fees and balance requirements
Not sure 8%
No 58%
Check-holding policies
Not sure 10%
No 59%
Closing of bank branches
Not sure 6%
Yes 28%
No 64%
Availability of bank services for low-income people and elderly poor
Not sure 11%
Yes 58%
No 31%
American Banker/1984

How Consumer America Views the Changing Financial Services Industry

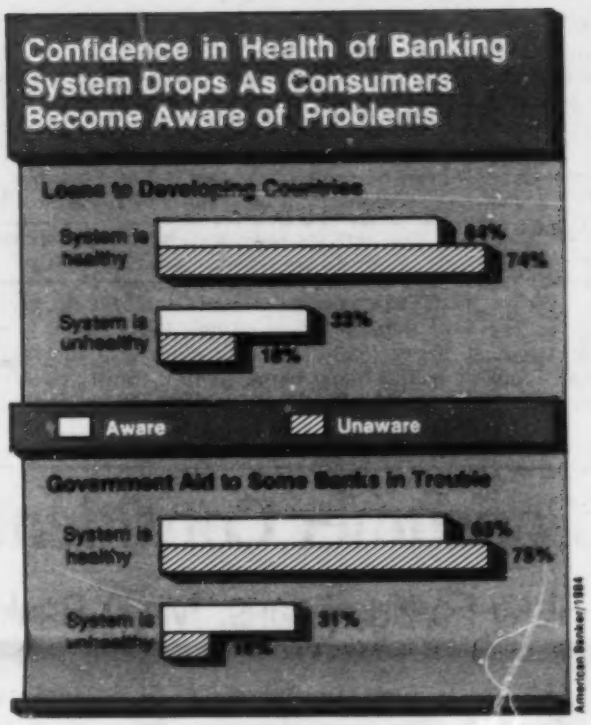
Greater Awareness of Problems Affecting the Banking Industry Would Lower Public Assessment of Its Health, Survey Reveals

If more people were aware of the problems of the banking industry, fewer would consider it healthy.

This is one of the findings of a nationwide telephone poll of 1,000 American households commissioned by the *American Banker* and conducted this summer by Reichman Research Inc., a New York-based opinion research firm.

The *American Banker's* investigation of consumers' views on the changing financial services world found that just under half of the public is aware of the loans some U.S. banks have made to less-developed countries, and two-thirds of those who are aware of such loans say they represent a very serious problem. Almost another third say this problem is somewhat serious.

In assessing these findings, John G. Heimann said, "The bulk of the press reporting on these loans calls them a disaster, so it doesn't surprise me that 94% of those who know about them say they are a serious problem." Mr. Heimann is vice chairman of Merrill Lynch Capital Markets and until last week was deputy chairman of Becker-Paribas Inc., the investment banking firm acquired by Merrill Lynch last August. He was formerly comptroller of the currency and New York State superintendent of banks.



Ignorance Is Commonplace

The *American Banker* poll also found that about three-fifths of the public was aware of the problem of some banks requiring government assistance to stay in business. Among those, about half called the problem very serious and about another third called it somewhat serious.

People who were aware of the problems of foreign loans and the need of some banks for government assistance were twice as likely to call the banking and financial system unhealthy as those who were unaware.

Stephen Brobeck, executive director of the Consumer Federation of America, said he wasn't surprised at the low levels of awareness found by the national poll: "We live in a very diverse, pluralistic society where a substantial percentage of the public is functionally illiterate. That is to say that they lack certain analytical skills and the ability to communicate in writing, but if you explain things to them, they understand."

Explanations Yield Comprehension

It is just this fact — that explaining things to people results in understanding — that has one banker and former American Bankers Association president worried most. Reacting to the findings on awareness and to the report that a quarter of those polled called the system unhealthy, C.C. Hope, vice chairman of First Union National Bank, Charlotte, N.C., expressed concern that "if something happens to raise awareness, confidence levels could slip further."

Mr. Hope, who is serving as secretary of commerce for North Carolina, said he suspected that lack of awareness was buoying confidence levels. He added, "To have this many people questioning the system already means it wouldn't take too much to flip it over in the other direction altogether."

The results of the survey "suggest that the Federal Deposit Insurance Corp. and the Congress should be very careful about making any substantial changes in the deposit insurance system," said Muriel Siebert, another former for New York State banking superintendent who is now president of the discount brokerage firm bearing her name.

Risk-Related Insurance?

And Edward Furash, president of the management consulting firm of Furash & Co., Washington, D.C., suggested that "these results indicate that the application of disclosure as a regulatory principal has to be accomplished extremely carefully." Mr. Furash, a former banker, is well regarded for his abilities to analyze trends in the financial services industry.

Both Ms. Siebert and Mr. Furash were referring to proposals made by the Federal Deposit Insurance Corp. that would base a bank's deposit insurance premiums on risk factors at that bank. At present insurance is based on assets — not management performance or asset quality. Mr. Furash said he feared that publication of bank ratings based on risk data could hurt confidence in the whole system.

"Such policies might work with sophisticated investors, insofar as the financial markets are concerned. But they might not make sense when it comes to the general public, which does not have the same level of understanding," Mr. Furash said. ■

How the Survey Was Conducted

The results of the *American Banker's* survey, "How Consumer America Views the Changing Financial Services Industry," are based on telephone interviews conducted among a scientifically selected random cross section of the American public. The cross section consisted of 1,004 respondents.

The questionnaire used for this survey was developed by Reichman Research Inc., a New York-based opinion research firm, in collaboration with the *American Banker's* senior editors. It consisted of structured as well as open-ended questions.

The sample was a stratified random digit-dial sample, which was drawn in a manner so that all telephone-owning households in the continental United States, listed and unlisted, had a theoretically known chance of being selected.

Heads of households, co-heads, and spouses of heads of households, 18 years of age and older, were eligible to be interviewed. Prospective respondents were called back up to three times before the interviewer moved on to the next telephone number.

The resulting number of respondents in each demographic category — income, age, sex, education, race, and geographic location — reflect percentages of the population as a whole.

All interviewing was conducted between July 20 and Aug. 1, 1984, by specially trained and briefed professional interviewers working out of two central-location telephone-interviewing facilities. The average interview took 18.4 minutes to conduct.

In any random sample, one would expect minor deviations in key population characteristics to occur. In this sample, prior to analysis, appropriate weighting was applied to correct for these minor deviations.

Reichman Research processed and analyzed the results flowing out of the survey and summarized the key findings for the *American Banker*.

In reviewing the survey results, the reader should be aware that the expected sampling error for a sample consisting of 1,000 interviews, at a 50% response and at 95% confidence — that is, reliability — rate, is plus or minus 3 points. This "margin of error" applies to the total sample.

For a more detailed description of the methodology used in this survey, for a copy of the questionnaire, or for special data requests, readers can contact either David Reichman, president, or Stephen O'Brien, vice president, Reichman Research Inc., 3 East 44th St., New York, N.Y. 10017. The telephone number is 212-986-7709.

Reichman Research is a marketing and opinion research firm that conducted the *American Banker's* 1983 survey, "How Corporate America Views the Changing Financial Services Industry."

How Consumer America Views the Changing Financial Services Industry

Half of Public Opposes Broadening of Commercial Bank Powers

Qualms Voiced on Diversification and Recent Performance, but Some Say Rise of New Suppliers Could Lower Costs

Five out of 10 Americans are against allowing commercial banks to enter new lines of business such as selling insurance and real estate.

Three in 10 favor the expansion of new services on the grounds that such a move could cut costs to consumers and increase convenience, and two people in 10 are unsure, mostly due to lack of familiarity with the issue.

These are among the findings of a nationwide telephone survey of 1,000 households conducted this summer by Reichman Research Inc., a New York-based opinion research firm. The poll was commissioned by the *American Banker*.

Consumers were asked four questions regarding the expansion of services at banks, each worded slightly differently and coming at different places in the survey questionnaire.

The most opposition — among nearly six of 10 Americans — arose in response to the question that asked people whether they thought it would be a mistake to give all banks additional powers if some banks are having problems with loans to underdeveloped countries or require government assistance to stay in business.

The least opposition came to the question, "All in all, do you favor or oppose banks being given greater powers to offer additional services?" In that case, almost four of 10 Americans favor new powers, while five of 10 oppose the concept.

Following a question noting that Congress had debated whether banks should offer insurance and sell real estate and asking the respondents how they felt, consumers were then asked why they responded as they did. Half of the total opposing new powers say "banks shouldn't get too diversified." One-quarter of the entire survey base believes this way.

One northeasterner says, "I think they should stay just where they are and not try to create a monopoly."

Another opponent of new powers from the Midwest remarks, "I feel that way because if they can't handle the banking business — which they haven't been doing well — then why should they get involved in other things?"

Why People Say No More Powers For Banks*

- Banks shouldn't get too diversified
- Banks would have too much power
- Banks might get less efficient
- Banks have enough to do already
- Banks should stick to banking

*in order of importance

But of those who favor new powers for banks, one Californian says, "It would give people more of a chance to pick and choose the best for their needs." And a Texan says, "Banks need other forms of making money — and selling insurance and real estate seem as good as any."

"If consumers are going to vote for change in their banking and financial system, then they have to see a benefit or believe that the new system will be better, and they aren't so sure of that in this case," Mr. Reichman said.

"They're not sure that banks have earned a new system because some have gotten into trouble under the old one. The idea that banks are having difficulties today because they are overregulated will not wash with the consuming public. The present system seems to work, and they are used to it," he explained.

But "it would be wrong to interpret these findings as saying consumers oppose new powers for banks," argued Edward Furash, president of Furash & Co., the Washington, D.C., consulting firm. "What consumers are saying is that they see no reason to expand services for banks in the face of those services being available elsewhere in the marketplace and especially in the face of their fear that such expansion might interfere with the special role they feel banks play as safe depositories," he commented.

The survey's findings agree with results of qualitative research done this summer by Allan Paro, director of advertising for the American Bankers Association. Mr. Paro said ABA focus group research showed that people don't care whether banks sell insurance or have expanded powers. And when asked if they'd shop at the bank for new services — given that the bank could offer them — most said no.

"From a marketing perspective, that is going to be an enormous hurdle for the industry to overcome when it does get additional authority because consumers are not intuitively ready to jump into a bank for these services," Mr. Paro commented.

M. Danny Wall, staff director for the Senate Committee on Banking, Housing, and Urban Affairs, which is headed by a strong advocate of expanded bank powers, Sen. Jake Garn, R-Utah, said he "doesn't see a parade of consumers on Capitol Hill for deregulation of services, but there weren't any parades for deregulation of interest rate control, either."

William M. Isaac, chairman of the Federal Deposit Insurance Corp., said he thinks "the banks haven't done as good a job of selling the public on the advantages of deregulation as banking's opponents have done in scaring the public" about granting banks additional services.

"I don't think that people appreciate that granting banks expanded authority to offer more services will enable banks to pay more for deposits, charge less in the way of service fees, and, most importantly, provide quality products in insurance and other areas at lower prices than the consumer can get now," said Mr. Isaac.

Mr. Wall and Mr. Isaac suggested that consumer education could breach that gap in appreciation.

But there is at least one fact that argues against education as a cure for what appears to be a fear of too much diversification in the banking industry: survey data show that it is those very consumers who are most aware of the problems of the banking industry who most oppose new powers. And it is even more ironic that these are the very people who could expect to benefit most from deregulation of services: People who are wealthier, live in rural areas, use stockbrokers and mutual funds, and are age 35 or older.

Marilyn Barnewall, president of the MacGruder Agency, a Denver-based marketing consulting firm that specializes in research and marketing programs for affluent individuals, said she isn't surprised at this irony. "We found

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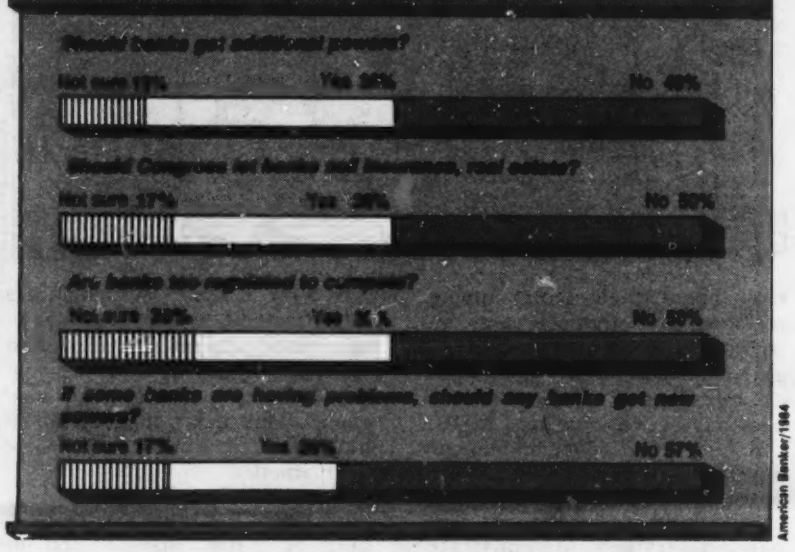
More Powers For Banks? Consumers Vote No



Because half of the public opposes new powers, Stephen K. O'Brien, vice president at Reichman Research and the survey's project director, concluded in his report to the *American Banker*: "While bankers claim that the public will be the ultimate beneficiary of deregulation, this opinion is not shared by the American public."

Who's Against More Powers For Banks?

- Earners of $50,000 or more
- People in rural areas
- Brokerage firm customers
- Mutual/money fund customers
- 35 year-olds and older

And David Reichman, the firm's founder and president, noted, "People in this country have a free enterprise, capitalistic mentality, and concentration of power goes against that grain. Broadening powers for financial institutions could imply this to them. People don't feel bigger is better."

And Fabian Linden, consumer economist for the Conference Board, added, "Banks are synonymous with money, and money is symbolic of power, and people are always afraid of those with too much power."

It is also possible, said others interviewed about the survey last week, that consumers really like shopping among many suppliers for financial services, and they are cautious about advocating more bank powers in light of all the trouble that banks and thrifts have encountered over the past few years.

Who's For More Powers For Banks?

- Nonwhites
- City dwellers
- 18-34 year-olds
- Finance company customers

Why People Say Banks Should Get More Powers*

- Would provide more competition
- Would make services more convenient
- No reason they shouldn't be permitted
- Could cut costs to consumers

*in order of importance

How Consumer America Views the Changing Financial Services Industry

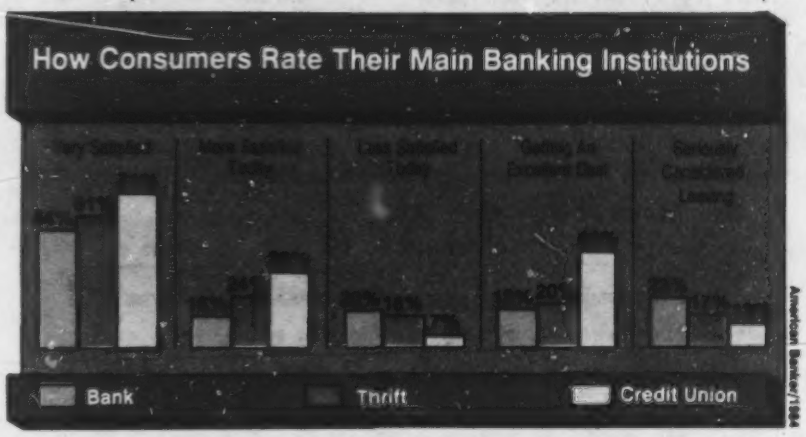
Financial Firms Get High Marks in Survey

Credit Unions Top List But Satisfaction with Banks Is Lower Now

An overwhelming majority of Americans are satisfied with their financial institutions — and credit unions are their favorite ones.

A new *American Banker* consumer opinion poll finds that nine out of 10 people are very or somewhat satisfied with their principal financial institution. Just over one in 20 of the respondents say they are somewhat or very dissatisfied.

Also, most people think that their primary financial institution gives them either a pretty good or excellent deal, with only one in 10 saying they get a not so good or poor deal.



These findings are from a nationwide telephone survey of how consumers view the changing financial services industry. The survey was commissioned by the *American Banker* and conducted among 1,000 households this summer by Reichman Research, a New York-based opinion research firm.

Credit union members, the survey finds, are the nation's most satisfied consumers of financial services. Compared to customers of banks and thrifts (savings banks and savings and loan associations), more than twice as many credit union members say they get an excellent deal from their financial institution.

As examples of what they like most about their credit unions, members most often volunteer "expanded services," and "easier to get a loan," although "higher interest rates" and "more courteous, personal service" also rank high.

Robert Von der Ohe, chief economist for the Credit Union National Association, said that the fact that credit union members cite "expanded services" demonstrates "that the program of expanded services as a strategy is working.

"People have always felt good about their credit unions," he noted in a recent interview, "because there's a cooperative philosophy, a commonality of purpose that says, 'We're all in here together, and no one's trying to take advantage of anyone else.' "

Now, 15% to 20% of the nation's 19,000 credit unions have begun offering more services, such as first mortgage loans, credit cards, and access to automated teller machines. This makes their members happier, Mr. Von der Ohe maintained.

Carl A. Modecki, president of the Consumer Bankers Association, said, "You don't have to tell me what the survey found. I'm a bank customer. For the credit unions, there's a cohesiveness there to begin with. It's likely they know their members. The bank tellers down here change once a week."

His comments underscore other survey findings: Customers of commercial banks are practically as dissatisfied as those people identifying some institution other than a bank, credit union, or thrift as their main financial institution. (Consumers also could choose brokerage firms, mutual or money market funds, insurance or finance companies as their "most important financial institution.")

More alarming, commercial bank customers are the only category in which a larger percentage say they are less satisfied than say they are more satisfied with their main provider of financial services than they were a few years ago.

One banker, who chose to remain anonymous, expressed the feeling of a number of others: "Of course people are going to say they are less satisfied. Banks are in the middle of deregulation, changing strategies, unbundling prices, charging new fees. There's a whole lot of disruption going on."

Commented David Reichman, president of the research firm that conducted the survey, "If I were a banker, I'd want to know what I have to do to bring the level of satisfaction in my company up to my competition's so I'm not losing customers in the future, but gaining them."

What clues does the survey offer bankers in this regard?

Bank customers say that high fees and minimum balance requirements bother them most.

Another thing that they dislike about their banks is that, as one consumer says: "There is no personalized service as there was before."

Someone else complains: "The

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Confidence . . .

the third asked whether consumers have more, less, or the same amount of confidence today compared with a few years ago. One westerner who says she has less confidence today comments: "The way the economy keeps going up and down, no one can have much confidence in anything, not even the banks."

And a midwesterner maintains: "The World Bank is in terrible shape. All of our loans to South America have stripped the banks of their resources."

Another consumer says, "I have less confidence because there are too many lousy loans to countries that will never pay back, like Brazil and those in Africa." This person adds, "There's too much national debt."

A reading of these open-ended responses shows that even people who say they have some confidence in the system and call it fairly healthy report less confidence today.

Why? Some reasons they give are: "Because right now the system is unstable"; "because the banking system's

"Considering the shocks the banking entirely messed up these days because of the modernization"; "because the U.S. banking system is turning away from middle-class investors."

In interviews about the survey results last week, most bankers, regulators, and industry observers focused on the bright side: They were heartened to hear that eight out of ten people have either a great deal or some confidence in the banking and financial system — given the amount of publicity about problems in the banking and thrift industries.

A few said they are saddened by the fact that only three in ten consumers say they have a great deal of confidence. "I'm sad that figure isn't 75%," said J. Charles Partee, a member of the Federal Reserve Board of Governors.

While some of those interviewed in response to the *American Banker* survey said they agree that these confidence levels are normal for today, several expressed surprise that the level of confidence wasn't lower.

Mr. Isaac pointed out that an American Bankers Association survey this summer found that most people had a great deal of confidence in the safety of their own federally insured bank deposits.

system has experienced in recent years and the publicity surrounding the high failure rates and individual banks' problems, the survey's findings indicate that the American public maintains a fundamental belief in the stability of the system," commented

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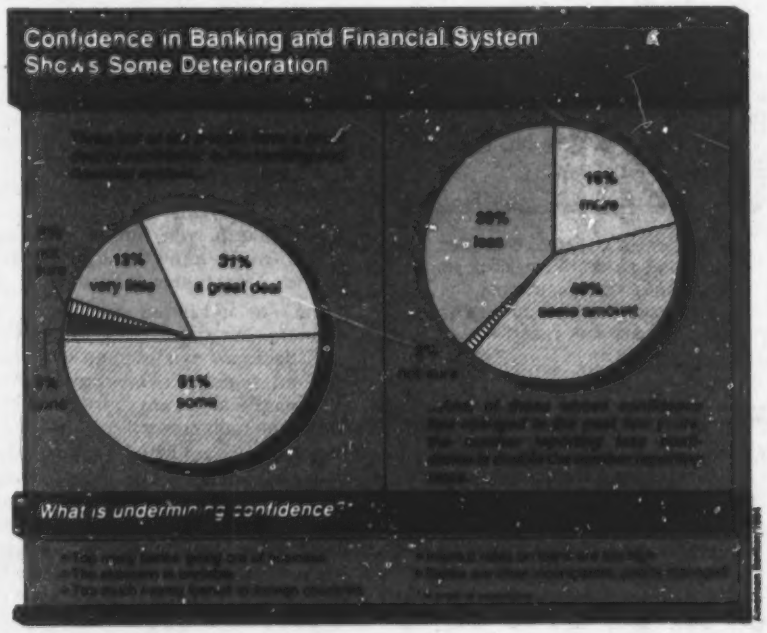

Confidence in Banking and Financial System Shows Some Deterioration
13% very little
31% a great deal
51% some
What is undermining confidence?

How Consumer America Views the Financial Services Industry

Wide Range of Answers Given on Check Holding; Fourth of Public Unsure if Funds Now Delayed

But Most Oppose Government Edict and Find Policy Reasonable if They Are Aware of It

Thirty-seven percent of Americans say their main financial institutions hold on to checks for a period of time before releasing the funds, according to the *American Banker's* new consumer opinion poll.

Another 37% say their financial institutions don't hold checks. An additional fourth of the public is unsure about whether or not its checks are held.

Of those respondents who say their main institutions freeze funds deposited by check until the checks clear, about a third aren't sure if there is a policy about such check holding; 45% say there is such a policy, and 25% say there isn't one.

However, when people whose checks are held are familiar with their institution's policy on check holding, three-fourths say the policy is reasonable.

The survey found that whether they like these policies or not, a majority of people are opposed to the government telling banks how long they're allowed to hold on to consumers' checks. (See page 1 of the Oct. 21 issue, "Third of Public Likens Banks to Utilities.")

That margin narrows, however, when it comes to people who identify commercial banks as principal institutions. These people are, as a group, still opposed to government regulation of check-holding policies. But they are much more likely than other people to want the government to regulate this practice.

These findings are from a nationwide telephone survey of 1,000 households commissioned by the *American Banker* and conducted this summer by Reichman Research, a New York-based opinion research firm.

Questions about delayed funds availability — or check-holding — policies have mushroomed during the past year. There are now laws setting maximum limits on the number of days banks can hold on to checks before releasing funds in New York and California. A similar measure is pending in Massachusetts, having been approved by the state House of Representatives but not by the state Senate.

The Connecticut legislature passed a law earlier this year that takes a milder approach than other states, requiring its banks to notify people of how long they must wait before using funds deposited by check.

And in Congress, Rep. Fernand J. St Germain, D-R.I., the chairman of the House Banking Committee, introduced legislation in the last session of Congress that would have imposed strict limits on the number of days banks could wait before making deposited funds available. Similar legislation requiring only disclosure of policies, not a setting of limits, was part of Sen. Jake Garn's omnibus banking bill in the Senate. Neither measure was passed this year.

Some regulators, legislators, and consumer advocates in these states and in Washington, D.C., have argued that the practice of check holding is widespread and unfair. While there are differences of opinion over the depth of this problem, many bankers now propose disclosure as a compromise between what may be no check-holding policy today and a government-established policy tomorrow.

In the *American Banker's* survey, the people who report their checks held most are from the Northeast. Just about half of northeastern respondents say their main institution holds checks.

Different Interpretations

Also reporting an above-average amount of check holding are between two-fifths and half of nonwhites, 18-34 year-olds, brokerage and money market or mutual fund users, and people who live in the suburbs — where a majority of these nonbank customers do live.

Bankers and industry observers are divided over how to interpret the survey data on consumer attitudes toward check holding.

Some bankers and others asked to assess these results have suggested that they reflect an American public that is largely ill-informed about the policies, practices, and problems of the nation's banking industry.

Others have said the results prove that the issue of delayed funds availability — or check holding — is not as big a problem as some legislators, regulators, and consumer advocates have maintained.

It is probable, as usual, that the truth lies somewhere between these two perspectives.

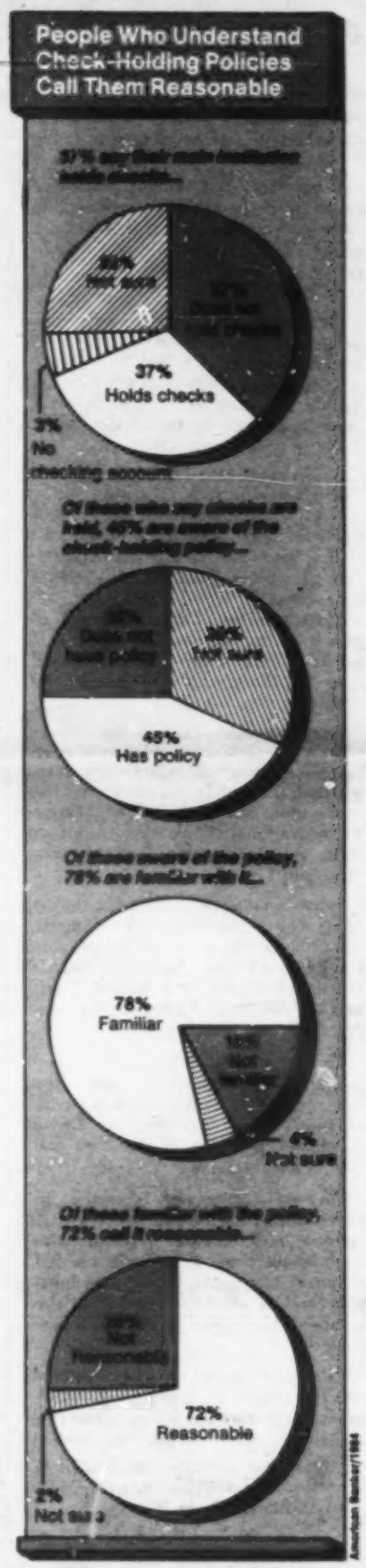
One of those who believes consumers are confused is G. Lynn Shostack, senior vice president, Bankers Trust Co., New York. "This is an issue where there's clearly confusion," she said. "A third of the people think their checks are held; another third doesn't, and the others don't know.

"Consumers are confused about how banks operate, and this is probably not the only area of confusion. The survey didn't ask them to recount the 18 different kinds of time deposits. This shows that banking is a difficult business to understand from the outside and very easy to misinterpret," Ms. Shostack said.

Also regarding the public as ill-informed is Stephen Brobeck, executive director of the Consumer Federation of America, who noted: "Most people are remarkably unaware of the character of the goods and services they are purchasing, particularly banking services, because they are so complex." Most consumers also are "not greatly aware of the policies and practices of their own institutions," he said.

On the side of those who believe check holding is a minor problem, or at least one that is confined to certain areas of the country, is Stephen K. O'Brien, vice president, Reichman Research. Mr. O'Brien determined that "check holding does not appear to be the widespread problem some might think. Only one-third of the public is aware of their banks holding checks, and of these, less than half even know what the policy is."

Siding with him was Edward Furash, a Washington, D.C., consultant; who noted, "First of all, banks vary dramatically in terms of the way they enforce these policies. Secondly, for many consumers, it's a nonissue because their payroll checks are deposited directly and then drawn down."



Mr. Furash said check holding appears to be a problem in the Northeast and in cities like Washington, D.C., where there is a great deal of interstate — or, in the case of Washington, interdistrict — banking. People may live in one state, bank in another, and work somewhere else. ■

Bank Powers . . .

Continued from Page 3

the same thing in focus group sessions," she noted. "Affluent consumers don't feel that banks do what they do very well to begin with. They see bankers as unsophisticated about the business of money — which is really about investing."

The people who most favor new services for banks are generally younger, nonwhite, and earn less than those who oppose new services. This is not unexpected, said Stephen Brobeck, executive director of the Consumer Federation of America, who noted that most people under age 35 have grown up in a period "when banking services were being deregulated and have not had the long experience of dealing with the highly regulated banking system that their parents had."

"Secondly," he said, the survey findings make sense because "nonwhites and lower-income individuals have more difficulty than the affluent in obtaining financial services." These people might be feeling that their needs would be better served if banks could offer more services, Mr. Brobeck added.

People who have less confidence in the system today — and those who are less satisfied with their principal institutions today — feel that it isn't a good idea to give banks additional service authority, while those with more confidence today like the idea of more powers.

And slightly more people interviewed after the government rescue of Continental Illinois National Bank and Trust Co., Chicago, this summer said they favored expanded services than opposed the idea. ■

How Consumer America Views the Changing Financial Services Industry

Confidence . . .

Continued from Page 4

William M. Isaac, chairman of the Federal Deposit Insurance Corp.

"But there are more problems in banking than a decade or two ago; banks are aware of that and are dealing with it. We are aware of that and are dealing with it, and we think the banking system as a whole is in generally in good condition," Mr. Partee said.

He added that he was more concerned with the fact that the *American Banker* survey reports that the number of people with less confidence today is double the number of people with more, and that a quarter of the public calls the system unhealthy.

C.C. Hope, vice chairman of First Union National Bank, Charlotte, N.C., secretary of commerce for the State of North Carolina, and a former president of the American Bankers Association, said, "I'm pleased the confidence level isn't worse."

The survey found that the number of people reporting less confidence is greatest among individuals age 55 and over and those who are aware of the problems of banking.

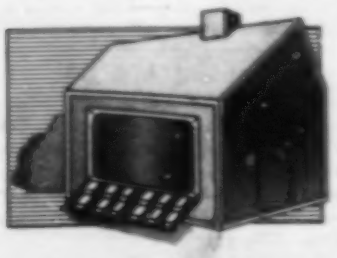
Geographically, the number of people reporting less confidence is greatest in the West and North Central regions, probably reflecting the well-publicized problems of Seattle-First National Bank, Penn Square Bank, and Continental Illinois National Bank and Trust Co.

Interviews were conducted during late July and the early part of August, with half of them completed prior to the Federal Deposit Insurance Corp.'s rescue of Continental Illinois Corp. and its lead bank, Continental Illinois National Bank.

The Continental rescue, announced July 26, didn't have much effect on the responses about confidence and health of the system, according to David Reichman, president of the firm that conducted the survey.

The only differences showing up after Continental's rescue were a 13% increase in the number of people who were aware that some banks needed government assistance to stay in business and a slight increase in the number who favored giving banks new powers.

The entire *American Banker* survey was completed prior to the announcement of the earnings losses of the Financial Corporation of America, parent of the American Savings and Loan Association, Los Angeles, the nation's largest thrift, and First Chicago Corp.'s announcement of third-quarter earnings losses.

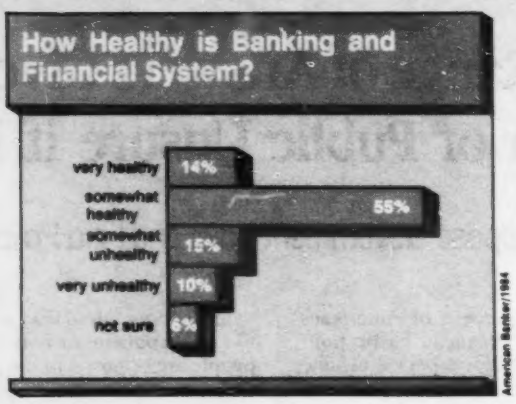


Richard Curtin, who directs consumer attitude surveys for the University of Michigan's Institute for Social Research, Ann Arbor, noted that "in the mid-1960s, half of the population might have said they had a great deal of confidence. But that isn't the kind of response you can expect now. The financial services industry is in a state of flux, and consumers are beginning to understand that and to appreciate safety even more than in the past."

People might understand that banking is in flux, but bankers interviewed in response to the survey said they don't think that the public differentiates between one bank having problems and the whole banking industry having problems. "Because some of the industry has done poorly, the general perception is that we're all alike," complained Stephen A. Hansel, executive vice president, Barnett Banks of Florida.

"Security analysts say if we took the word 'bank' out of our name, we could double our price-earnings ratio," he added.

Several of those interviewed about the survey said that they thought more people would have reported a great deal of confidence if they were less confused about what was going on in the financial services industry today and less resentful of the increases in service fees.



Kenneth A. Guenther, executive director of the Independent Bankers Association of America, was one of those who noted widespread confusion over interest rates. "People don't understand why there's this rate here and that rate there," he said. "And then, to top it off, those without funds to invest have been hit by increased service fees."

He is joined in that sentiment by Donald T. Senterfitt, president-elect of the American Bankers Association and vice chairman of Sun Banks Inc., Orlando, Fla.

Mr. Senterfitt summed it up by saying, "Since deregulation on the liability side, which has caused pressure on margins, and since banks have begun unbundling their services and started pricing them individually, people have been getting charged for what used to be free. Naturally, that is going to raise some resentment among people.

"It is going to become a matter of education and the realization among the public of how things have changed. When people come in and talk to their individual banker they have a lot of confidence in their bank," he said.

Many researchers say it is impossible to prove that confidence in financial institutions is related to the level of personal satisfaction with those institutions because such comparisons may simply unearth the feelings of a group of people who are negative in general. But the survey did find some correlation.

The number of people who are less satisfied today with their principal institutions and who have very little or no confidence in the system is double the number with very little or no confidence who are more or as satisfied.

The less satisfieds are also half as likely as the more satisfieds to have more confidence today than a few years ago.

Poll Looks at Attitudes on Changing Financial Services

Continued from Page 1

government involvement in the policies of banks, such as closing unprofitable branches, holding checks, and increasing service charges or minimum-balance requirements. But if these policies prevent poor or elderly individuals from obtaining affordable banking services, the public changes its tune: then Then consumers want the government to step in and tell banks what to do.

In this, the American public displays a historic conflict over support for free enterprise and helping the less advantaged.

Even though consumers still display confidence in the federally insured depositories, they tend to view the nonbank financial conglomerates — such as Sears, Roebuck and Co. and American Express — and the large banking organizations — such as Citicorp and Bank of America — as being more in the forefront of change and innovation than their own principal financial institutions. And about a third of those polled even think that these giant corporations are better equipped to meet consumer needs than their own primary institutions.

Additionally, a surprisingly high percentage of the respondents say they would be willing to conduct their financial services business with an institution without branches, using instead the phone, mail, and automated teller machines.

This implies that, as nationwide financial services become a reality, the medium-size and smaller commercial banks' share of the consumer market will become more and more vulnerable to attack from nonbank and large bank competition.

The survey's findings reinforce the immediate need for commercial banks to create a different public image: customers Customers of commercial banks, when compared to customers of other federally insured depositories, are the least likely to say they are very satisfied with their institutions, and they are the most likely to feel less satisfied today than in the past.

According to the survey, one reason for this is that commercial banks have raised service fees and minimum-balance requirements more than either thrifts or credit unions, and they have explained these policies less than the other depositories.

While almost all of the respondents who call commercial banks their principal institution say they are either very or somewhat satisfied with their bank, other survey results indicate that this level of satisfaction cannot be taken for granted. The once-loyal and mostly apathetic commercial bank customer is more willing than ever to shop around for financial services.

Unless commercial banks become much more open with the public about their changing business imperatives and their policies, it is possible that their still-healthy franchise with the American consumer will erode in the future.

The seeds of future attitudes indicated in some of the responses , suggest that banks must work hard to maintain today's sense of confidence in the system and today's satisfaction levels, especially if they want people to grant them any expansion of powers.

As long as the financial services industry remains in a period of transition, consumers will continue to call for information about what is going on, as well as news about new products and services. Whoever provides this information is likely to gain great credibility with the American public. ■

For Survey Reprints

Reprints of the *American Banker* series, "How Consumer America Views the Changing Financial Services Industry," can be obtained for $10 each from: *American Banker*, Attention: Gina Caputo, One State Street Plaza, New York, N.Y. 10004.

How Consumer America Views the Changing Financial Services Industry

Consumers Hedge Bets When It Comes to Financial Institutions

Survey Finds They Use an Average of Three Different Types of Firms and Seem to Value Federal Deposit Insurance

One-stop shopping for financial services has not yet become widely accepted by the public, according to a new *American Banker* consumer opinion poll.

The nationwide survey finds that consumers continue to use an average of three types of financial institutions among a choice of banks, thrifts, credit unions, insurers, brokers, mutual or money market funds, and finance companies.

Also, in an economic environment that some people see as unstable or risky, most seem to prefer the federally insured depositories over newer nonbank competitors.

These findings are from a telephone poll of 1,000 households commissioned by the American Banker and conducted this summer by Reichman Research Inc., a New York-based opinion research firm.

The survey shows that the biggest competitors of commercial banks still remain savings and loan associations, savings banks, and credit unions — not nonbank financial institutions.

In fact, the poll finds that four-fifths of the people who use banks but who don't regard them as their principal institution identify thrifts or credit unions as principal institutions. Slightly less than the remaining one-fifth gives the designation of principal institution to a nonbank.

Commented Edward Furash, the Washington, D.C., management consultant: "Coupled with other *American Banker* survey results showing some decline in confidence, this finding seems to point to an environment where people are most comfortable with spreading risk around by using multiple — and insured — institutions."

The public's willingness to use many financial institutions and its experience with multiple suppliers, noted Stephen K. O'Brien, vice president, Reichman Research, also "might explain why there is not a strong desire to see banks granted greater powers." The survey found that half of the public opposes expanded service offerings for banks. (See page 3, Oct. 20 issue.)

If people are losing confidence and aren't as satisfied with banks as they used to be, Mr. Furash noted, "a bundle-up-with-me or relationship banking strategy is going against their current risk-balancing behavior." Many banks and nonbank financial companies currently employ such strategies to get consumers to consolidate their financial business.

"This means that the financial services institutions that want to win have to go back to basics: They have to reinforce confidence, boost their financial condition, and improve the quality of service if they are to overcome nervousness about risk," Mr. Furash said.

Of the insured depositories, commercial banks are the ones used most by Americans: Three-fourths of the respondents, according to the poll, say they maintain an account with a commercial bank. One-fourth doesn't. And four people out of 10 call commercial banks their principal institution.

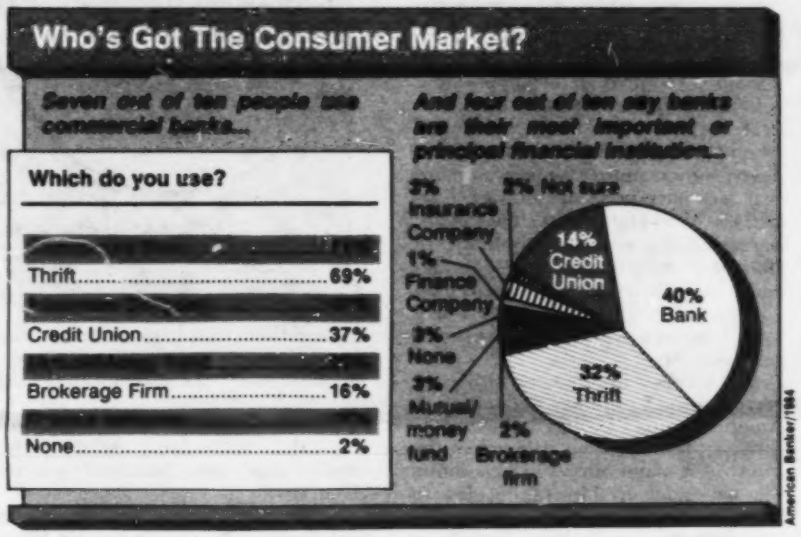
In comparison, three out of 10 call a savings bank or savings and loan their principal institution, and 14% choose credit unions.

These data are based on which financial firm respondents designate as their "most important or principal" financial institution, not necessarily where they have their checking account. The data, therefore, may include those institutions people consider their chief lenders as well those places where they deposit the majority of their funds. Or it could indicate which suppliers they simply "feel" are most important to them.

It is for this reason, say other researchers, that the commercial bank share of market found by the *American Banker* survey may seem low compared to similar research. Other research generally designates the place where consumers keep their checking accounts as their principal institution.

The Federal Reserve Board's 1983 survey of consumer finances, for example, finds that about 51% of U.S. households keep their checking account at a bank. That survey also shows that 21% of the public doesn't have a checking account at all.

A different survey done in 1982 by the Credit Union National Association, however, used a methodology more similar to the American Banker's when it asked people what supplier was their "primary financial institution."



This survey found that credit unions penetrated 23% of U.S. households. The *American Banker* survey shows 37% of the public using credit unions today, with 14% calling them their principal institution. This compares to 10% two years ago in the CUNA survey.

However, Robert Von der Ohe, chief economist for CUNA, was reluctant to say that this shows people are tending more toward using credit unions and calling them their principal institutions today.

But he did confirm the American Banker's finding that the old myth that only lower-income people use credit unions and finance companies is no longer true — if it ever was.

Credit unions and commercial banks have quite similar customer bases by age, education, and income, according to the American Banker's survey.

"We actually found in 1982 that, up to about $60,000 a year, we had a higher income profile for the average credit union customer compared to bank customers and to the population as a whole," Mr. Von der Ohe said.

While the *American Banker*'s survey found that nearly 40% of people earning $40,000 and over a year call banks their principal institution, these people account for only 16% of the total base of people identifying banks as most important to them.

About 15% of consumers earning $40,000 and over a year call credit unions their principal institution, and they account for 19% of the credit unions' core customer base.

Although many commercial banks have for several years had marketing campaigns to lure the affluent — and although only 17% of people earning $40,000 and over call some institution other than a bank, thrift, or credit union their principal institution — some 33% of these nonbanks' core customer bases are made up of affluent individuals.

The number of affluent individuals identifying some institution other than a commercial bank, thrift, or credit union as their principal one was too small to be broken down by individual groupings.. However, of people saying they use finance companies, some 15% earn $40,000 a year or over.

Commercial bankers who feel complacent about having garnered the largest share of consumers as customers should be aware that 41% of the public earning less than $20,000 a year doesn't use a commercial bank. Neither do a fifth of those earning between $20,000 and $50,000 annually.

About a third each of people age 55 and over, people who are not white, and people who live alone do not use the commercial banking system, according to the American Banker survey.

While the data on individuals earning more than $50,000 a year could reflect sampling error due to the relatively small number of respondents, the survey shows that about 13% of people earning more than $50,000 a year don't use the commercial banking system.

"Banks have not cornered the market," commented Richard Curtin, the director of consumer attitude surveys for the University of Michigan's Institute for Social Research, Ann Arbor.

He and other industry observers who were asked to assess the *American Banker*'s survey findings in recent days noted that the more affluent someone is, the more sophisticated his financial needs and the less helpful a commercial bank can be.

"But commercial banks have been marketing to the affluent," noted the reporter.

"Marketing what?" replied Mr.

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How Consumer America Views the Changing Financial Services Industry

Communication Key to Satisfaction

Most consumers say that higher service charges and minimum balance requirements are justified when these increases are explained to them; but only half as many see increased fees as justified when they are imposed without explanation, according to the *American Banker's* new consumer opinion survey.

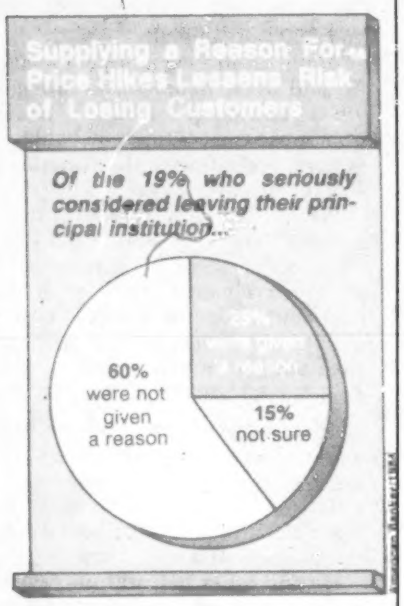
Also, people who get no explanations are more likely to have seriously considered switching financial institutions because of fee increases than those who are offered reasons. These same people are generally less satisfied with their institutions than those who have gotten explanations

These findings are from the *American Banker's* nationwide telephone poll of 1,000 households which was conducted last summer by Reichman Research Inc., a New-York based opinion research firm. (See page 2 for survey results on consumer attitudes about check holding.)

Commenting on the importance of communicating clearly with consumers, the incoming president-elect of the American Bankers Association, Donald T. Senterfitt, warned: "If bankers don't take the trouble to explain what's going on, then they can't expect anything but resentment from their customers." Mr. Senterfitt is also vice chairman, Sun Banks Inc., Orlando.

And G. Lynn Shostack, senior vice president, Bankers Trust Co., N.Y., said: "The banking industry talks a lot about the need for excellent employee training and good customer communication, but the *American Banker's* survey provides strong evidence that instituting programs like these translates directly into revenue." Ms. Shostack, a widely respected strategist, is also one of the original founders of Greenwich Research.

Half of the survey respondents report increased fees or minimum balance requirements at their principal financial institution. Another two-fifths report no increases. And about one in 10 people are not sure whether fees went up.


Supplying a Reason For Price Hikes Lessens Risk of Losing Customers
Of the 19% who seriously considered leaving their principal institution...
60% were not given a reason
15% not sure

It is surprising that only half of the respondents say fees or balance requirements have increased. Given the amount of price raising that has been occurring at banks over the past five years or so, a figure of half seems extremely low. Bankers say they have been forced to raise consumer service charges as a result of deregulatory pressures and increased competition.

In assessing the survey findings, several industry observers wondered whether some of the 39% that say fees haven't gone up are simply unaware that fees have gone up. Edward Furash, the Washington, D.C. consultant, suggested that perhaps people ignore statement stuffer announcements because they keep deposit balances high enough so they don't have to worry about increased fees or balance requirements.

And Stephen Brobeck, executive director of the Consumer Federation of America, said: "I can't believe only 52% say fees went up. We are in the midst of a major survey which shows fees have gone up at over 90%, close to 100%, of banks. Nothing indicates that any institutions are holding the line. So the only conclusion I have is that a large portion of consumers are just not aware that their fees have been raised."

In the survey, however, about two-fifths of the respondents say rising service fees and balance requirements have burdened some people. And the number of consumers saying increases have burdened a lot of people is slightly larger than the number saying increases have burdened very few people.

The Americans who seem to have been hit hardest by fee increases live in small towns and rural areas, which are also home to the lion's share of commercial bank customers.

The survey confirms that commercial banks have raised fees or balance requirements more often than thrifts or credit unions. Nearly 60% of the respondents calling commercial banks their principal institution report rising charges compared to 50% for their counterparts at thrifts and 40% at credit unions.

A survey by the American Bankers Association this summer found that six out of 10 people do not believe bankers' claims that increased service fees are necessary to cover a bank's cost of business.

But the *American Banker's* survey finds that 55% of people calling banks their principal institutions see price increases as justified. When these consumers are offered a reason for the increases, 80% believe it.

While fewer credit union members believe the reasons for price increases, more of them than bank customers say the increases are justified. Credit union members are also more satisfied than bank customers.

The survey finds a major reason for this is that credit unions explain the increases more often than banks explain them.

As Mr.Brobeck put it in reference to that finding, "It might be the Hawthorne effect, but it works."

He was referring to a series of experiments conducted in Western Electric's Hawthorne plant in the 1930s to determine what variables affect productivity. The findings have been widely interpreted to mean that a group's productivity will increase simply because the people in the group have been singled out to be studied. In the case of the bank customers, it's not so much whether they believe the reasons given for fee increases as the fact that they've gotten some explanation.

However, Mr. Senterfitt read the findings differently. "The fundamental assumption is that any banker who is abusing pricing policies can never justify that to the public," he said. "So, assuming they can indeed justify these charges, bankers might find that the public still doesn't like to pay, but at least more people will have a better understanding of our business."

Along with explaining the reasons for increasing fees, suggests another banker, "giving people something to offset the service charges, like free checking for a six-month money market certificate or for $1,200 in a savings account," can go a long way toward minimizing tensions.

This banker, William P. Schott, senior vice president, the Summit Bancorp., Summit, N.J., cautions: "When you don't explain these things to people and also give them an option or alternative, you're sending a very subtle message that says 'we don't care,' which is a very quick way to get into trouble."

Robert Von der Ohe, chief economist for the Credit Union National Association, would agree with that. While credit unions have also increased fees, he noted in a recent interview, "in many cases the fees charged by credit unions are significantly lower than those charged by banks. And credit unions are much more willing to explain what the fees are for and why they are raising them.

"The banking community is kind of talking out of both sides of its mouth at once. Banks say they are in favor of being in the consumer business — but until they come to grips with how to rationally price their products, they're going to drive away a good book of business," he said.

There is some support for this contention in the survey: Between a third and a fourth of people who use commercial banks but don't call them their principal institution say they have seriously considered moving to an institution with lower fees. Among those people who are commercial banks' most loyal customers — those calling banks their principal institution — that figure drops to under a fifth who are considering leaving for that reason.

Bankers say it is important to them that more of the people who use the bank for, say, only one service begin using the bank for all their financial

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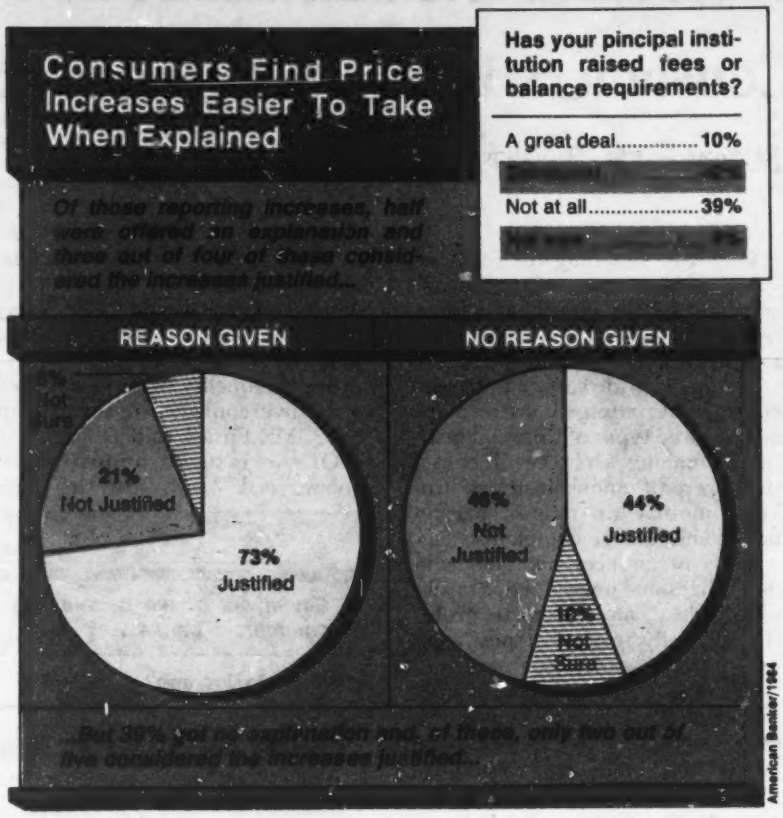
Consumers Find Price Increases Easier To Take When Explained
Of those reporting increases, half were offered an explanation and three out of four of these considered the increases justified...
Has your pincipal institution raised fees or balance requirements?
A great deal.....10%
Not at all.....39%
REASON GIVEN
NO REASON GIVEN
3% Not Sure
21% Not Justified
73% Justified
48% Not Justified
8% Not Sure
44% Justified
...But 39% got no explanation and, of these, only two out of five considered the increases justified...
American Banker/1984

Explanations Result in Customer Satisfaction
Are you very satisfied?
When reason given for price increases.....62%
When no reason given.....41%

How Consumer America Views the Changing Financial Services Industry

American Express Scores Highest in Poll

Mirror, mirror on the wall — who's the fairest of them all?

American Express Co., according to the *American Banker's* new consumer opinion poll.

Almost half of the nation's consumers are customers of at least one of eight giant financial services firms — Sears, Citicorp, Bank of America, American Express, Prudential Insurance, Merrill Lynch, Beneficial Finance Corp., and Charles Schwab & Co.

And, among these firms, American Express is the one more consumers know, use, and think better meets their needs than any of the others.

According to the *American Banker's* survey, 44% of 1,000 households surveyed this summer say they do business with one or more of these national competitors. The poll was conducted by Reichman Research Inc., a New York-based opinion research firm.

"The results of the survey indicate that nationwide financial services are no longer a vision of the future but a practical reality for many Americans," commented Stephen K. O'Brien, vice president of Reichman Research.

As part of this research, people were read a list of the eight firms and asked several questions: With which are they familiar? With which do they do business? Which best meets consumer needs? Which is most in the forefront of change and innovation?

The winner in three out of the four categories is American Express. The company's one loss was to Sears, Roebuck and Co. on the question of being most in the forefront of change and innovation."

One reason for American Express' winning posture may be the size of its national customer base — it has some 14.5 million credit cards outstanding. The firm also sells more travelers checks than any other company.

Who Best Meets Consumer Needs?

American Express	10%
Sears Roebuck	9%
Bank of America	8%
Merrill Lynch	7%
Citicorp	6%
Prudential Insurance	5%
Beneficial Finance	4%
Chas. Schwab	1%
Not Sure	45%

Several bankers asked in recent days to respond to the survey findings suggested that a big clue as to why American Express ranks so highly can be found in a recently released listing of the top 10 television advertisers among financial services firms.

American Express Co. spent $39.4 million on television advertising in the first six months of 1984, leading the second-place firm (Sears) by more than 33%. These data were compiled by the Television Advertising Bureau, a not-for-profit organization that tracks such matters.

In third place, according to that list, was Citicorp. Fourth was MasterCard International, and Prudential Insurance was fifth.

In addition to millions spent on national television advertising, American Express has also made major investments over the past few years in what it calls "cause-related marketing." Restoration of the Statue of Liberty is the best-known cause for which the company has volunteered to donate funds each time one of its products is used. But the program has also been instituted — and advertised — in local markets.

An American Express executive interviewed about these findings doesn't think it is only the ads, the cards, and the travelers checks that put the company in first place three times in the survey.

"Advertisements might sell the first product, but it is the service after the sale, as well as the ongoing quality of the products, that keeps customers loyal," said Meredith M. Fernstrom, senior vice president for public responsibility at American Express.

"In addition to what we spend on advertising, we spend even more on assuring a worldwide network of high-quality customer service resources," she maintained.

Edward Furash, a Washington, D.C., banker-turned-consultant, agreed that millions of dollars spent on national advertising can't hurt. But he emphasized that in today's competitive world, "Winners differentiate themselves through merchandising their image or establishing merchandising systems that reach a broad spectrum of the publics they want to get at."

Among one of those 'publics' that every financial company seems to be after — consumers earning $50,000 or more — 34% do business with American Express, compared to 14% of the total sample. Usage of Merrill Lynch & Co. among this market group is 21%, not 7%, as it is with the overall sample; and 20% of these people do business with Citicorp, compared to 10% in the sample as a whole.

According to Stephen Brobeck, executive director of the Consumer Federation of America, it is the younger folks in America who "have seen less difference between banks and diversified financial services companies like American Express."

"Increasingly, they'll go outside the commercial banking system. They are more willing to do bank-

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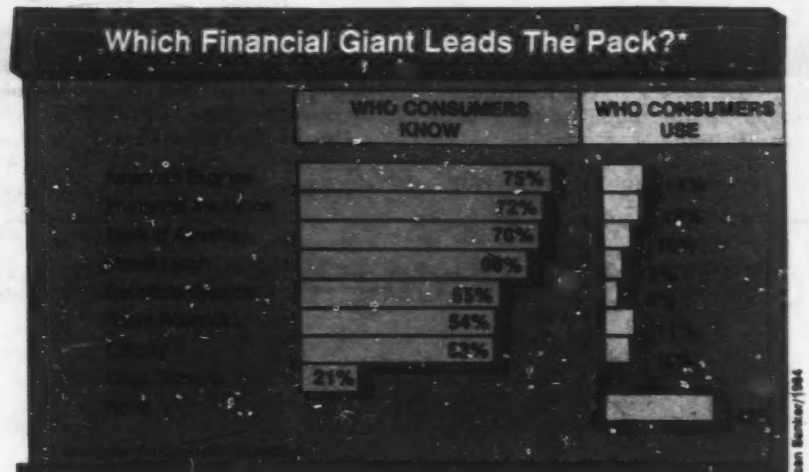
Which Financial Giant Leads The Pack?*



And 44% of those polled use one or more of the giants

Continued from Previous Page

needs. If so many people who use the bank marginally are thinking of leaving because of fees, then, the survey suggests, perhaps bankers who want to keep this business had better think about changing policies or at least explaining them a bit more.

C.C. Hope, a former American Bankers Association president, commenting about the *American Banker's* survey, said: "We need new approaches. We must give the very strongest push to making certain that we are informing, educating, and being reasonable in our approach. If we do that we can hang onto and build our business." Mr. Hope is vice chairman of First Union National Bank, Charlotte, N.C., and is serving as secretary of commerce for North Carolina.

Further support for Mr. Von der Ohe's contention that high fees may turn off some consumers is found in the fact that 32% of the people who don't use the commercial banking system today want the government to regulate fees and balance requirements compared to 23% of those who do use commercial banks. And 64% who don't use the system want the government to supply "lifeline" or bare-bones checking services to low-income and elderly poor people compared to 56% who do use the system.

These data imply that more people would use banks if they could afford to, if they weren't intimidated, or if they weren't psychologically turned off by the banks' policies.

Some bankers have sympathy with these consumers. But because they are trapped by a deregulated cost structure and fierce competitive pressures, bankers say they have no choice but to charge for services that were once free.

"Unbundling and fees will be with us for some time. This is a very difficult public relations problem for bankers but it is an economic necessity," said J. Charles Partee, a Federal Reserve Board governor.

And Tully F. Dunlop, director and senior banking officer for NCNB National Bank of Florida, noted, "Bankers have done a very poor job of communicating to the public. It is vital and extremely important for bankers to communicate that deregulation has changed our cost structure." Mr. Dunlop was formerly chairman of the board of three of Ellis Bancorp's north central Florida subsidiaries. Ellis was recently purchased by NCNB Corp., Charlotte, N.C.

Mr. Brobeck emphasized that "people have a lot more difficulty pricing a banking service than a hamburger or an automobile, both of which contain a bottom line on the sticker.

"What's the price of a banking service? It depends on a dozen different factors many of which are poorly understood or totally misunderstood by bank employees and many of which are inadequately disclosed to consumers," Mr. Brobeck said.

Michael P. Sullivan, vice president, corporate communications for First Union National Bank, Charlotte, agreed. "We must emphasize clear and concise communication with customers in more personal ways," he said. "Our employees must understand that for us to make the transition into a sales culture we need their support to communicate that message one on one."

The *American Banker's* survey results on communication and customer satisfaction, according to Mr. Hope, "are a strong indictment of those bank managers who will not change. This just screams out to managements. It says. 'Look, your customers are intelligent, reasonable people, and if you just tell them what your concerns are and why you had to raise prices, you'll go a long way toward holding onto people who might otherwise leave you. And you'll maintain good relationships.' "■

How Consumer America Views the Changing Financial Services Industry

Two-Thirds Perceive Banks as Private Businesses But a Majority

Continued from Page 1

Inc., a New York-based opinion research firm.

The survey asked: "Some people have told us that they think banks are like utilities — that banks have a responsibility to provide service to everyone. Other people think that banks are private businesses and have the right to pick and choose those customers they want. What do you think — are banks more like utilities, or are they more like private businesses?"

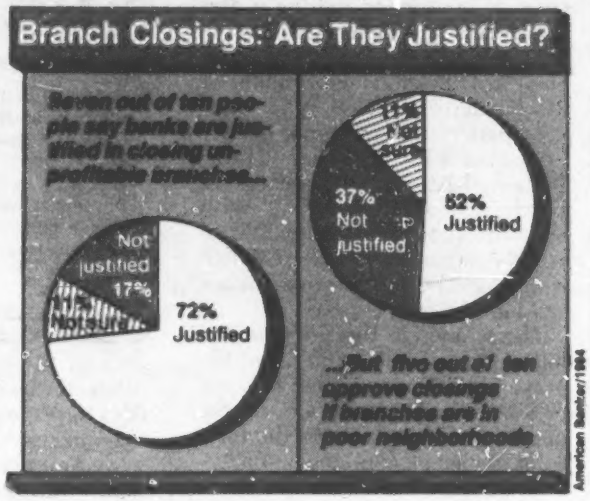
Finding an answer to this question has become increasingly important over the last few years as consumer advocates, legislators, and regulators have seen banks increasing service fees, revamping some branches, and closing others in an effort to do just what the question says: pick and choose their customers.

Who is most likely to think that banks are like utilities?*

More	Than
Westerners	Southerners
18-24 year-olds	55 years-olds and older
Females	Males
Earners of up to $50,000	Earners of $50,000 or more
Nonwhites	Whites
Small town/rural dwellers	Suburbanites
People not using commercial banks	Commercial bank customers
People unaware of banking's problems	People who are aware of banking's problems
Finance company customers	Mutual/money fund or brokerage firm customers

*While no more than 39% of any group said banks are like utilities, people in some groups are more prone to thinking that way than others.

American Banker/1984


Branch Closings: Are They Justified?
Seven out of ten people say banks are justified in closing unprofitable branches...
Not justified 17%
72% Justified
37% Not justified
52% Justified
...But five out of ten approve closings if branches are in poor neighborhoods
American Banker/1984

While these banking practices have arisen in response to cost pressures from deregulation and increased competition, they have ignited a public policy debate over the role of banks in American society.

Are banks, in fact, private businesses that can pick and choose the customers they want? Or should they be forced, by virtue of the privilege of having federal deposit insurance and their special role as custodians of the money supply, to treat all consumers equally?

Are basic banking services a right or a privilege?

The level of heat being generated by these questions is indicated by the fact that several state legislatures and the U.S. Congress have already begun discussing bank service fees, check-holding policies, and branch closings. Some are trying to decide if banks should be forced to offer bare-bones or lifeline checking services to individuals who can no longer afford them at the going rates.

Survey responses point out that "the American people are caught between their loyalty to the credo of free enterprise and their desire to see that all people have access to needed banking services," as Stephen K. O'Brien, vice president of Reichman Research, put it.

Two questions in particular display the depth of this duality: One of these questions asks if consumers think banks are justified in closing branches they see as unprofitable. Seven out of 10 people say yes.

But a similar question points out that "some of the branches that banks want to close are located in poorer neighborhoods where there are very few bank branch offices to begin with." In this case, five out of 10 say closings are justified.

One big city banker attempted to explain the dichotomy, which is at the basis of the current policy de-

Citicorp Reach Is Even Nationwide; BofA Has Strong Western Base

In the race between the nation's two largest bank competitors, Citicorp and Bank of America, Citicorp currently comes closest to being the most truly nationwide banking company, according to the *American Banker's* new consumer opinion survey.

The survey results indicate that Citicorp customers tend to be spread more evenly around the country than Bank of America's. Citicorp has fewer customers in the West than elsewhere, but Bank of America's customers are mostly in the West and South, the survey shows.

The survey was conducted among 1,000 households this summer by Reichman Research Inc., a New York-based opinion research firm.

An industry observer with intimate knowledge of Citicorp said, "That's just great. They've done just about everything they could do under the current laws. These results are very positive."

He theorized that the more even distribution of Citicorp's customers is partly a function of the company's massive nationwide credit card solicitations.

Citicorp's mailings, which started in 1977, have attracted somewhere between six and seven million Visa and MasterCard customers, some 80% to 85% of whom live outside New York State. Citicorp's lead bank, Citibank, is chartered in New York State.

It has been estimated that the San Francisco-based Bank of America has about eight million cardholders, but it is not known how many of them live outside California.

Citicorp Versus Bank of America: Whose Customers Live Where

Citicorp's customers are more evenly distributed around the country...

	Citicorp	Bank of America
Northeast	26%	12%
North Central	28%	21%
South	31%	28%
West	16%	40%

On best meeting needs, 9% chose both and 10% weren't sure.
On being in the fore of change and innovation, 5% chose both and 12% weren't sure.

William H. Ott Jr., vice president for retail strategic planning at Bank of America, said he thinks Citicorp's customers are more evenly distributed around the country because BofA has "spent a great majority of time serving our home customer base. But now we've got the momentum to begin moving across the country as federal regulations permit."

From its strong base in the West, Bank of America has been telemarketing and mailing credit and deposit service solicitations around the country. Also, BankAmerica Corp., parent of Bank of America, owns FinanceAmerica, a finance company with 256 offices in 42 states.

In addition to its massive credit card base, Citicorp also has a presence in 29 states through the 98 offices of Citicorp Person-to-Person Inc., a consumer finance operation. Other offices of this subsidiary are chartered as industrial thrifts or banks and accept deposits as well as make loans.

In 1982, Citicorp purchased the Fidelity Savings and Loan Association in Oakland, Calif., which could help account for the fact that Citicorp's western customer base is larger than Bank of America's northeastern customer base. Citicorp also bought a Florida thrift, formerly called the Biscayne Federal Savings and Loan Association, in January 1984, and the First Federal Savings and Loan Association of Chicago in 1983.

Add to all of this acquisition activity the recent Citicorp mailings to lure savings depositors and those selling its Focus account — a cash management-type product — and it is easy to see how Citicorp ends up being an interstate banking company at a time in American history when interstate banking is still supposed to be against the law. ■

How Consumer America Views the Changing Financial Services Industry

Says They Should Have to Offer Lifeline Services

bate: "None of us wants to see low-income or elderly poor people disadvantaged or placed under conditions of hardship. We are a naturally compassionate nation.

"People are telling you here that 'yes, we understand you are profit-making enterprises, and, yes, we support that concept, but we think you ought to have a sense of social responsibility.' "

This executive went on to say that he personally belongs to "the Marie Antoinette school of banking: Let them eat cash!" (He declined to be quoted in connection with this article because he works for a financial institution whose only customers are affluent.)

Taking the middle ground, John F. Fisher, senior vice president, Banc One Corp., Columbus, Ohio, commented that certain of the intermediary functions of banks make them "somewhat of a hybrid between utilities and businesses." And "as technology causes the transactional functions of banking to become commodity-like," even more people might start perceiving banks as utilities.

All of those interviewed in recent days about the *American Banker's* findings were asked to guess about consumer responses to the question of whether banks are more like businesses or utilities.

Almost without fail, bankers and regulators alike said they thought most people would say "utilities," and then heaved a sigh of relief upon hearing that they didn't.

William M. Isaac, chairman of the Federal Deposit Insurance Corp., said, "I'm surprised they said businesses. It surprises me because there are many people in Congress and state legislatures who speak of banks as utilities and want to treat them that way. I'd have assumed that more of that would have rubbed off on the public."

Another federal regulator, J. Charles Partee, a member of the Federal Reserve Board of Governors, said he believes strongly that "the notion that banks should give low-income people checking accounts because they are utilities is wrong." They are not utilities, Mr. Partee noted, although they do play a special role in American society.

"I have a good deal of sympathy with the concept of lifeline banking, particularly in urban neighborhoods, but there are tremendous problems in implementing such a concept," Mr. Partee said.

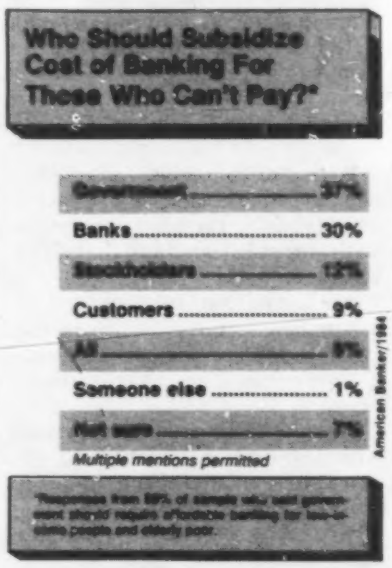
If this country agrees that lifeline banking should be provided to the poor as a matter of public policy, Mr. Partee suggested that it be accomplished in the same way as some state automobile insurance pools. In these pools, insurance providers contribute to an agency through which consumers who cannot afford auto insurance are subsidized.

Mr. Partee said he thinks all providers of financial services should have to pay into such a pool if one is established — not just banks and not the government, either.

Administratively, he said, it would be difficult to determine if a consumer has enough means to pay for an account. "I don't like the idea of a bank saying, 'Demonstrate to me that you make less than X amount of money.' So I think perhaps an agency could determine eligibility if this were to be done."

The concept of lifeline banking has begun to catch on around the country in the past eight to 10 months. Bills supporting it have been informally proposed by regulators in New York State, discussed in the California legislature, and ratified by Massachusetts lawmakers, who recently banned service fees on checking accounts for people under age 18 and over age 65.

Developments in these states often provide bankers elsewhere with advance notice of what their legislatures may soon be doing.


Who Should Subsidize Cost of Banking For Those Who Can't Pay?*
Government 37%
Banks 30%
Stockholders 12%
Customers 9%
All 8%
Someone else 1%
Not sure 7%
Multiple mentions permitted
*Responses from 69% of sample who said government should require affordable banking for low-income people and elderly poor.
American Banker/1984

Also, a bill was introduced two weeks ago in the House of Representatives by Cardiss Collins, an Illinois Democrat, that would require federal bank regulators to define and then report back to Congress what deposit and checking services banks could provide at little or no cost to consumers.

(One problem with this legislation is that there may be precious little for federal regulators to report without months — maybe years — of research. For the most part, bankers don't have any idea what their services cost to produce. They price them based on what the market will bear.)

Yet the issue at the root of this whole controversy is that bankers say they can no longer afford to offer services for free. The current debate started late last year when Rep. Fernand St Germain, D-R.I., cautioned a group of New York

Arnie Tan

'I have a good deal of sympathy with the concept of lifeline banking, particularly in urban neighborhoods, but there are tremendous problems in implementing such a concept.

— Fed Governor J. Charles Partee

State savings bankers that if they priced low- and moderate-income people out of the market for banking services, they would risk congressional retribution.

Throughout this year Mr. St Germain has been investigating service fees, minimum balance requirements, and disclosure policies at federally insured financial institutions, including banks, thrifts, and credit unions.

And Mrs. Collins' bill, introduced in the last session, in addition to requiring regulators to furnish the cost of producing banking services, would also require banks, savings and loans, and credit unions to increase disclosure on service fees.

According to Stephen Brobeck, president of the Consumer Federation of America, the idea of disclosure has great consumer appeal.

"People are biased against government intervention into private enterprise these days, particularly when it comes to price-setting or other kinds of economic regulation," Mr. Brobeck said.

"But research shows they strongly support more disclosure of information. If the *American Banker* survey had asked about this," Mr. Brobeck said, "I'm sure it would have found a large portion of the public supporting government's insisting that banks fully disclose information about consumer accounts."

Last June, at a White House conference on the consumer and the financial services revolution, several bankers proposed disclosure as a means of heading off more substantial and, they feared, onerous legislation at both the state and federal levels.

These bankers acknowledge that at the core of this whole debate is the fact that they switched images on the consuming public and never explained why.

Back in the 1960s, when the industry first discovered that the American consumer was a net source of funds, banks promoted themselves as safe, friendly, helpful places where anyone could go for advice, a loan, or to store cash and other valuables.

There was a quantity, not a quality, approach to the offering of consumer financial services: Market share was the winning determinant. Counting the number of customers with deposits over a certain limit and building special facilities for them was not a commonplace practice as it is today.

Ads promoting free checking were common. Branches popped up everywhere like mushrooms after a good rain.

People became used to banks promoting themselves more like utilities by offering services for nothing and by running ads with the name of the bank in small type and the interest rates or current premium offerings in large type — and always as FDIC-insured.

But the evolution of high inflation, money market mutual funds, and interest on transaction accounts changed all of that.

Suddenly banks had minimum-balance requirements that some people couldn't afford. And the friendly banker who once promised to meet any financial services need that anybody might have was telling people who had less than $1,000 to go up the block to the nearest savings and loan association.

Now bankers say they are sorry they didn't explain things more clearly when they sent out all of those letters that began, "Unfortunately, due to increasing inflation and the high cost of funds, we have been forced to..."

Some bankers wonder out loud whether it is their failure to communicate more effectively that is causing what could become a deregulatory backlash of legislation that might end up forcing them to change their retail banking policies. ■

How Consumer America Views the Changing Financial Services Industry

Many Know Sears Sells Stocks

Survey Finds 44% Aware of Retailer's Financial Services

Just three years after the dramatic expansion of Sears' financial services business, nearly half of the nation's consumers are aware that its stores sell stocks — as well as shocks and socks.

According to the *American Banker's* new consumer opinion poll, 44% of the respondents have seen, heard, or read about the Sears Financial Network, those in-store booths showcasing Allstate Insurance, Dean Witter Reynolds brokerage, and Coldwell Banker real estate personnel.

Awareness of Sears, Roebuck and Co.'s financial services centers is highest among people earning $50,000 and over, although respondents earning $20,000 to $50,000 are the group most likely to have shopped the Sears Financial Network. At the end of September, there were 277 of these in-store centers in operation.

Sears has said that the main market for financial services delivered through its network is the average brokerage customer — someone earning in the range of $33,000 — and the average holder of a Sears credit card, earning in the $25,000 range. About 20 million households currently have Sears credit cards.

The survey shows that about 8% of the consumers who have heard about the Sears Financial Network have actually visited one of the centers. Three-fifths of these people were favorably impressed. And slightly more than two-fifths bought something.

Insurance, checking accounts, savings accounts, obligations of the Government National Mortgage Association (or Ginnie Maes), stocks, and real estate were some of the products they mentioned buying.

This survey was conducted last summer among 1,000 households by Reichman Research Inc., a New York-based opinion research firm.

The survey indicates that more Americans would do some financial business at Sears if they could. About an eighth of all respondents say that, given the opportunity, they would go to Sears for some financial dealings instead of staying at the institution they now use.

Responding to another question, 16% think the service at Sears would be better than the service at "other financial institutions such as banks." Two-fifths say the service would be as good. And 32% aren't sure.

Only 13% say the service wouldn't be as good at Sears as at a bank or other financial institution.

While other survey data show that people are not yet deserting their banks for the Sears Financial Network (see "Consumers Hedge Bets When It Comes to Financial Institutions," page 3, Oct. 22), these results indicate that, given enough incentive — or a big enough push — they just might.

It is even possible that such an exodus has already begun and, since people change slowly, that nobody has noticed.

"People don't have to leave their banks to shop for financial services at Sears," pointed out Gene Harman, vice president, Sears corporate public affairs.

"It's very possible that many people do some business with us and some with a bank. I do."

In California, some consumers already use only Sears, Mr. Harman noted, because that's where Sears Savings Bank is located. Sears Roebuck has owned Sears Savings Bank for 26 years and Allstate Insurance since 1931. Its recent expansion into financial services began in 1981 with the purchase of Dean Witter.

Since testing the first Sears Financial Network center in 1982, the company has spent nearly $27 million to advertise its new financial thrust. Results of the *American Banker* survey suggest that people have noticed.

Mr. Harman said Sears plans to have financial centers in 300 stores by the end of the year.

It is no secret that Sears is interested in taking deposits on an interstate basis, especially now that the firm has unveiled plans to buy a Delaware bank and turn it into a limited-service facility or nonbank bank.

With 300 "branches" around the country, that bank, if approved, would provide the giant competitor with substantial deposit-taking leverage.

Are the bankers quaking?

Not Ben F. Love, chairman and chief executive officer of Texas Commerce Bancshares Inc., Houston.

He said: "This provides Congress with justification to let banks become deregulated geographically within a region. Sears can go anywhere. Why shouldn't we be able to?

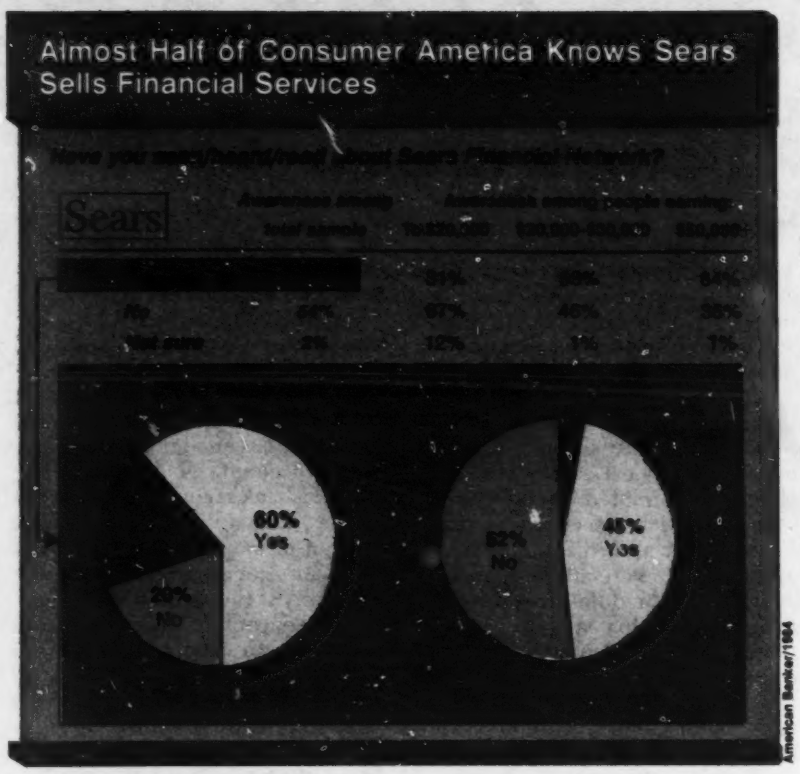
"Given the opportunity, I guarantee you that even a bunch of dumb Texans can compete and deliver products to consumers sensitively and efficiently," quipped Mr. Love.

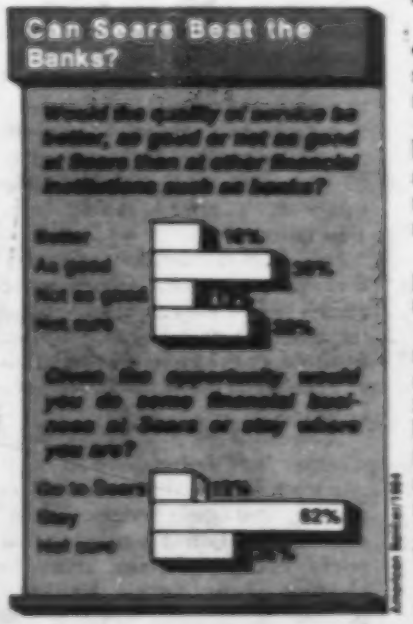
Sears' Mr. Harman said the retail giant is aware that "banks are restricted, but we feel they should be freed to compete for the customer by offering the same services we do. Then let the consumer decide where to shop."

Among commercial bank customers, it is those who define a bank as their principal institution who are most likely to pick Sears, not American Express Co., as best meeting the needs of consumers. Furthermore, among that group identifying a bank as their principal institution, 10% more than those just using banks actually bought financial services from Sears, according to the *American Banker* survey.

Asked to assess these data on Sears, Robert L. McCormick Jr., president of the Stillwater National Bank and Trust Co., Stillwater, Okla., said: "I'm not impressed one way or the other. I think Sears is going to be a tough competitor.

"When they started getting into the business, I started buying their stock. American Express stock too, and it's been going down ever since I started buying it. I hope I'm the kiss of death," said Mr. McCormick. ■




Can Sears Beat the Banks?
Would the quality of service be better, as good or not as good at Sears than at other financial institutions such as banks?
Better
As good
Not as good
Not sure
16%
32%
52%
Given the opportunity would you do some financial business at Sears or stay where you are?
Go to Sears
Stay
Not sure
18%
82%

Usage . . .

Continued from Page 7

Curtin. Most wealthy people are looking for investments, not certificates of deposit, he added.

Although he said "there may well be a financial supermarket in the future, people will continue to shop at the local store."

Mr. Curtin advises bankers to "be aggressive. Do what you've always done best until you can do more. Offer deposit accounts but pay more of a market rate of interest.

"Consumers are more willing now to change institutions and to shop around," Mr. Curtin said. "This period of transition in the financial services industry will last some time." ■

How Consumer America Views the Changing Financial Services Industry

Survey Finds 37% Favor High-Tech Way of Doing Their Banking

More than a third of the American public likes the idea of doing their banking without ever having to visit a bank, and 2% already banks this way, according to the *American Banker's* new consumer opinion survey.

Thirty-seven percent of survey respondents say they would be either very or somewhat comfortable banking by phone, mail, and automated teller machine with a bank that no longer has branches. The telephone poll was conducted this summer among 1,000 households by Reichman Research Inc., a New York opinion research firm.

Another question, which will be discussed in an article appearing Monday, asked owners of personal computers what they think of home banking — heralded as an important element in the banking industry's future delivery system.

Although a third of the public favors no-branch banking, more than half of the consumers surveyed say they don't like the idea of banking without going into a bank building. But most of these are older people, for whom the new system of delivering banking services is not being created.

Among 18- to 34-year-olds, half say they would be comfortable — 20% of them, very comfortable — conducting their banking business in this manner.

Acceptance drops among 35- to 54-year-olds to 35% who would be comfortable. And among those 55 and older, only 22% would be comfortable banking the high-tech way.

This suggests that as the younger people mature, banks will have an easier time changing the way in which they deliver financial services to consumers.

The evolution of the banking industry's delivery system has come under scrutiny lately in light of negative consumer reaction to branch closings. Bankers explain that the increased costs and competition of a deregulated environment are forcing them to shut down unprofitable offices and to rely more on technology, such as automated teller machines. This technology, they say, is less costly than labor-intensive branches.

But answers to the *American Banker's* survey show that some consumers who are used to banking the old-fashioned way are going to have a hard time accepting the new system.

Some comments from opponents of the new-wave way:

"I don't like machines, and I won't do business with a bank that forces me to use machines. Machines are impersonal and you can't communicate with them." This from a city-dwelling male over 55.

"Machines can make mistakes but cannot correct them. Human beings can make mistakes and correct them." This from a female suburbanite, age 35 to 44.

"Well the old cliche — you can't teach an old dog new tricks — holds for me. I wouldn't feel comfortable at all because I'm so used to the personal bank tellers and the usual banking procedures." This from a female rural dweller over age 55.

"I feel uncomfortable with the phone. I wouldn't know for sure if my transaction has gone through." This from a 25- to 34-year-old male city dweller.

On the other hand, some consumers find the idea just dandy:

"It would be very nice that way. Very convenient. It would save a lot of time and money." This from a male, aged 35-44 who lives in a small town.

"It seems very fast and efficient. Sometimes I can't make banking hours so I would like it. It seems very reasonable." This from a suburban male, age 55-64.

Why Some People Prefer Banking Without Branches*

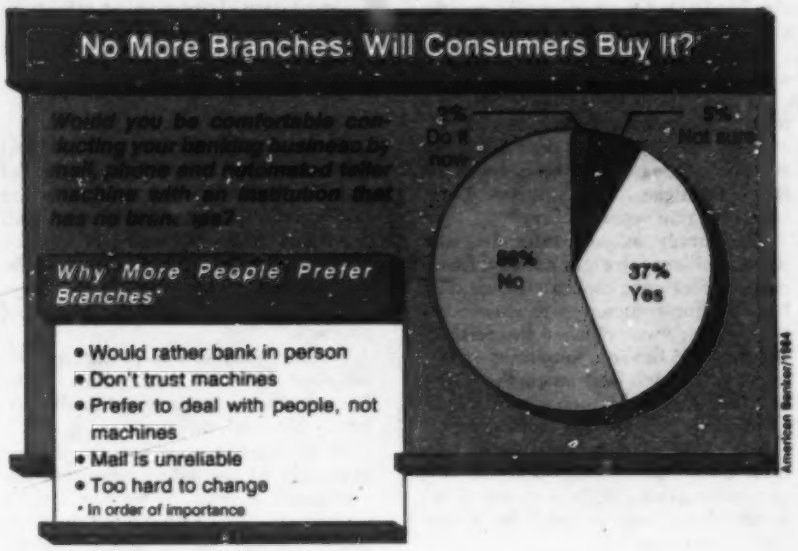
- Would be convenient
- Familiar with teller machines
- Would be efficient
- Teller machines are open 24 hours
- Would be simpler

* In order of importance

"I have been using an automatic teller now for four years. I also work with computers so I understand a bit and am familiar with this type of banking." This from a suburban male, age 25-34.

"I already do my banking over the phone and I am very satisfied with it." This from a female, age 35-44 who lives in a small town.

Although more than half of those surveyed still oppose the concept of banking without branches, the fact that more than a third favor it suggests that acceptance of high-tech banking isn't as distant as some of its opponents prophesy.


No More Branches: Will Consumers Buy It?
Would you be comfortable conducting your banking business by mail, phone and automated teller machine with an institution that has no branches, yes?
3% Do it now
5% Not sure
58% No
37% Yes
Why More People Prefer Branches*
• Would rather bank in person
• Don't trust machines
• Prefer to deal with people, not machines
• Mail is unreliable
• Too hard to change
* In order of importance
American Banker/1984

Tim Clark, senior associate, Furash & Co., a Washington, D.C., management consulting firm, commented: "We are seeing a tremendous shift in the consumer definition of convenience. More and more people aren't using branches. I'm not surprised that 37% said they'd be comfortable banking this way. I think the pace of acceptance is increasing and we are definitely on the upside of the curve."

And John F. Fisher, senior vice president, Banc One Corp., Columbus, Ohio, a well-known high-tech proponent, agreed, "This whole thing is changing more rapidly than anyone knows."

If Mr. Fisher and Mr. Clark are right, the next decade should bring with it a strong acceptance of high-tech banking as every kid who plays with computer games today grows up to become a consumer of financial services.

Edward Furash, president of Furash & Co., said, "People will use a mixed delivery system for a substantial period of time until they get comfortable. We're talking here about reliability," he said.

And Mr. Clark added, "Once people figure out something will work, they'll use it."

Mr. Furash countered, "But until then — at least for the next five to seven years — banking will have to fund two delivery systems."

Who's for What

The *American Banker's* survey results show that some financial institutions will have it easier, and some harder, getting their customers to accept services in this way.

For example, people identifying a thrift (savings and loan or savings bank) as their principal institution are the most likely to say they would be very uncomfortable. This correlates with the fact that 29% of their core customer base (people calling thrifts their principal institition) are over 55.

People identifying credit unions as their principal institution are the most evenly split of all consumers, with 47% saying they'd be comfortable and 48% saying they'd be uncomfortable banking this way.

Consumers who are brokerage firm customers are twice as likely (although this is a tiny number) to be doing business the high-tech way.

Responses from commercial bank customers reflect those of the total sample. But people living in small towns and rural areas — where the largest number of commercial bank customers live — are the most uncomfortable when it comes to high-tech banking. They vote against the concept, 59% to 33%, with 2% now doing it and 6% unsure.

Banc One's Mr. Fisher thought the results of the *American Banker's* survey of alternative delivery systems show that "banks have been viewing ATMs [automated teller machines], POS [point-of-sale], and home bar king as individual strategies, when in fact they are only tactical executions of an overall delivery strategy.

"If we equate the overall delivery environment to the pipeline, then these results show it is not too early to start delivering the pipeline," concluded Mr. Fisher. ■

How Consumer America Views the Changing Financial Services Industry

Smaller Banks Can Fight Giants: 'Own Institution' Rates Highest

Is there hope for small and medium-size banks that try to compete against the nation's financial services giants?

Maybe. If they keep very close tabs on their customers' attitudes.

At least that is the answer suggested by the *American Banker's* new public opinion poll, which was conducted last summer among 1,000 households by Reichman Research Inc., a New York-based opinion research firm.

The survey asked consumers who were familiar with eight national financial services conglomerates, including two banking companies, to choose between their own principal financial institution and the conglomerates on two measures: which best meets the needs of consumers and which is most in the forefront of change and innovation.

While 51% of those responding pick their own institution as best meeting consumer needs, 30% pick one of the giants. Nine percent pick both, and 10% aren't sure.

Of the group picking the giants, a fourth names the Bank of America and a fifth selects Sears Roebuck. In third place, with 18%, is American Express, followed by Citicorp with 15%.

Consumer Comes First

Commenting on Bank of America's lead position among the conglomerates, William H. Ott, vice president of nationwide delivery, BofA, said, "The main reason why Bank of America most often beats the local financial institutions on meeting consumer needs is our name and the heritage associated with it. Bank of America has a heritage of placing the consumer first. Eighty-five years ago, when banking was only for the wealthy, we were the ones who brought banking into the world for everyone."

Preliminary results from similar research at BofA, he said, indicate the company "is very well perceived as far as providing good customer service."

On being most in the forefront of change and innovation, the *American Banker* survey found that only 24% of the respondents pick their own primary institution. Five percent take both choices, 12% aren't sure, and 59% select one of the giants, with a third of those selecting Sears Roebuck.

Why Sears?

One answer was given by Ronald J. Roderique, senior vice president and marketing director of United Bank of Arizona. "These results," he said, "are a product of national advertising. This goes particularly for Sears. People see Sears on TV and figure 'Sears must be doing a better job than my bank because I don't see my bank advertising so much.'

"I guess they win on change and innovation because they never advertised financial services nationally before," Mr. Roderique said.

Of all financial services companies, Sears placed second in television advertising expenditures for the first six months of 1984, 33% behind the first-place spender — American Express Co.

Ironically, the nation's banking and thrift industries together spent four times what Sears did on television advertising in the first six months of 1984, according to data recently released by the Television Bureau of Advertising, an industry group that tracks such matters.

But banks and thrifts are usually too busy fighting each other to get together for joint action. Besides that, most of the bank and thrift advertising revenue reported by the bureau is local, not national, for the simple reason that national banking is still against the law in this country.

Robert L. McCormick Jr., president of the Stillwater National Bank, Stillwater, Okla., commented, "In the final analysis, the marketplace is going to determine where people obtain their financial services. We've got 11,000 customers in this bank. If we do a good job for those guys it's going to be hard to blow them out of here."

Mr. McCormick is a former president of the Independent Bankers Association of America, the trade group for the nation's smaller, community banks. He defines a good job as "providing appropriate financial services in a sensitive, professional, timely way at a reasonable price."

Kenneth A. Guenther, executive director of the Independent Bankers group, said of the *American Banker's* findings, "There's a lesson in this survey for bankers. The lesson is that people like to be treated like human beings. This is the great strength community bankers have and they should continue to capitalize on it."

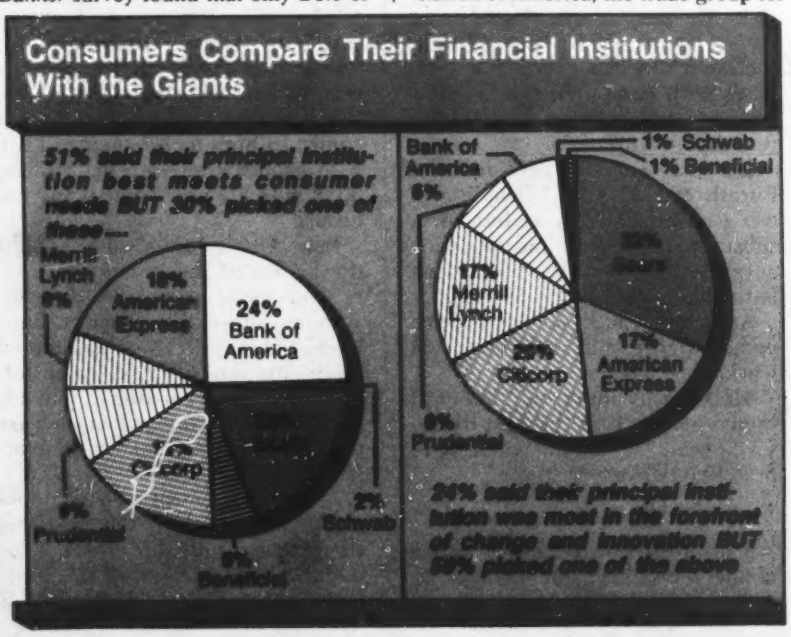
The assumption is that if they do, there is indeed hope for them to compete against the giants.

Support for this assumption can be found in other *American Banker* survey results, which show that the most satisfied consumers of financial services in the nation are credit union members. (See Financial Firms Get High Marks in Survey, Page 1, Oct. 22 issue.)

C.C. Hope, vice chairman, First Union National Bank, Charlotte, N.C., serving as secretary of commerce for North Carolina, said: "Regional banks can't continue along without providing those nice, warm, fuzzy feelings people get from credit unions. We can fight toe to toe with the conglomerates but we need to provide those personal touches."

And Stephen A. Hansel, executive vice president, Barnett Banks of Florida, said, "People ask us all the time how are we going to compete with Citibank.

"What I want to know is how is Citibank going to compete with us. We have 12,000 people, 2,000 tellers, 300 automated tellers, and 322 offices in the state of Florida. Besides that, we have a commitment to serve our market that never wavers for an instant."■


Consumers Compare Their Financial Institutions With the Giants
51% said their principal institution best meets consumer needs BUT 30% picked one of these....
24% Bank of America
18% American Express
15% Citicorp
9% Merrill Lynch
9% Prudential
8% Beneficial
2% Schwab
24% said their principal institution was most in the forefront of change and innovation BUT 59% picked one of the above
Bank of America 6%
1% Schwab
1% Beneficial
33% Sears
17% American Express
15% Citicorp
17% Merrill Lynch
6% Prudential

American Express Co. Tops in Usage

Continued from Page 9

ing at a nonbank," Mr. Brobeck said.

"That should be cause for concern among the banking industry — and it is," he added.

(The *American Banker* survey found that people under the age of 24 and over age 65 are more likely not to use commercial banks than they are to use them. Furthermore, 41% of individuals earning less than $20,000 do not use the commercial banking system. Many of these people are under 24 or over 65.)

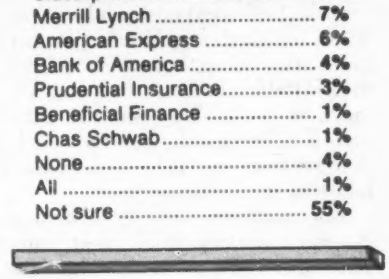
After American Express, the next best-known and most-used company in the sample is Prudential Insurance Company of America. Following Prudential, Bank of America is next best-known but Sears Roebuck is next most-used.

Gene Harman, vice president for corporate public affairs for Sears households now have Sears credit cards, and about 98% of the people living in the United States visit a Sears store at least once a year."

Nearly a fifth more people are familiar with Bank of America than are familiar with Citicorp, although the two giant banking companies are tied in usage, with 10% of the public saying they use one or the other.

The greater awareness of Bank of America may result from the fact that, as one banker put it, "Bank of America had its name on that damned card for years. That's the best imagery in the marketplace. Their leverage was wonderful. Why they ever gave it up to Visa, I'll never know."

And a consultant close to Citibank said, "This is fantastic. Just think about it: Citicorp spends almost nothing in terms of broad-based image campaigns in this country. Merrill does it. American Express always weaves lots of imagery into its card and check advertising. But Citicorp doesn't advertise nationally, only locally, and it has a very heavy product focus."



Nonetheless, he noted that whatever Citicorp has been doing has built a strong image in the minds of consumers — and a strong base of awareness from which to sell future products.

A Citicorp employee said there is greater recognition around the country for the name Citibank than the name Citicorp, which is something people can't quite define. Citibank, he said, they know is a bank.

Citicorp is best-known among customers of brokerage firms.

But among finance company customers, Citicorp wins on being the company that best meets the needs of consumers, probably because many people know or use its Person-to-Person finance company offices throughout the country. ■

How Consumer America Views the Changing Financial Services Industry

Personal Computer Owners Friendly to Home Banking

Continued from Page 16
cial services will be viable sooner or later."

In the *American Banker's* sample, twice as many middle-income people are very likely to buy a computer during the next 12 months as those earning under $20,000 or those earning more than $50,000. Finance company customers are the most likely to buy, with credit union customers highly likely to buy in the next 12 months.

Surprisingly, a majority of personal computer owners display the same antipathy toward remote banking as the rest of the sample. Asked another question about whether they'd be comfortable conducting a banking business by phone, mail, and teller machine with an institution that has no branches, 51% said they'd be uncomfortable. And the reasons were the same as those given by the rest of the sample:

"Don't trust machines."

"Rather bank in person."

This doesn't surprise Edward Furash, a Washington, D.C., banker-turned-consultant, who commented: "Their attitude is just like anyone else's: Everyone needs to feel comfortable that the transaction will take place as it is supposed to. It's no different than the return policy of a merchandiser.

"The question for banks is how long it will take to get people comfortable. They are discomforted, not rejecting."

A Florida banker maintained: "People may be enamored of a concept like home banking, but when it comes to opting for that delivery system now, before it is perfected, they have to be willing to endure the problems that go along with it."

But John F. Fisher, senior vice president of Banc One Corp., Columbus, Ohio, said, "Fantastic. I'd settle for 10% by the end of next year. I think that's a great beginning. As a matter of fact, that's how all new concepts are accepted in the marketplace. If you can get 10% for a new concept, you're well on your way."

Mr. Fisher, a well-known proponent of harnessing technology to offer financial services, added: "After 15 years of automated teller machines, we've only got 30% penetration of the market. If your 10% really reflects the mentality of the marketplace, then it's a clear signal we're moving in the right direction."

Like Mr. Settel, Mr. Fisher wondered if the *American Banker* survey hadn't captured some people with game-playing computers that don't have modems and so couldn't be used for home banking.

He noted that in 1979, Bank One, the major subsidiary of Banc One Corp., became the first bank in the country to run a market test on home banking, Channel 2000. At that time, "We saw a long waiting period before acceptance. The market needed to be nurtured, and we decided we would need partners to survive," he said.

Banc One Corp.'s strategy was to end the experiment and begin another. The company is now principal owner, with six other banking firms, of VideoFinancial Services, the gateway for data procesing and switching to deliver remote banking transactions into home information networks like Knight-Ridder's Viewtron, which is now operating in Florida.

One bank that seems to be running against the grain of this go-slow philosophy is Chemical Bank, New York, which introduced its Pronto home banking service in September 1983 after a one-year market test.

Charles S. Forbes, vice president, sales and marketing, noted that Pronto has more than 10,000 households as customers, translating to 15,000 users of the service.

"More than 16% of these 10,000 never banked with us before," Mr. Forbes said.

"That's why we're involved in this delivery environment at such an early stage. The only way to move market share is to be first in the marketplace," he asserted.

Additionally, there is evidence that once people take Pronto, they consolidate their financial relationship with Chemical, Mr. Forbes explained. The average bank customer has 1.6 accounts with Chemical; the average Pronto customer has 3.9 accounts, he noted.

Mr. Forbes insisted that "these delivery environments aren't put in place overnight. The technology takes time to debug and to gain acceptance in the marketplace. I'd be real concerned about cooking up some kind of system, not introducing it for five years, and then be overwhelmed by the demand after that time period."

Chemical Bank executives, he said, "are convinced a home banking system will gain wide acceptance within five years. One researcher shows some 56 million households will have personal computers within five years. Others project 30% by 1987, which is about 25 million.

"If these personal computer projections are half right, then there will be an awful lot of PCs out there. And, among the next generation of PC owners, our research says 45% of them say financial analysis is their most important reason for purchasing a computer. That compares to 22% among those owning computers today."

Chemical is not alone in its desire to be first in its marketplace. Forty-one banks offer bank-at-home service, either as a full commercial operation or in pilot tests. And another 14 have declared their intention to get into it.

They are all banking on the future profitability they can gain as early entrants into a relatively virgin marketplace. ■

Financial Firms . . .

Continued from Page 4
bank's getting too big. You always get the runaround."

Another says: "That personal touch is gone since they were bought out by another bank."

It would be easy for bankers to be complacent about the fact that more than nine out of 10 of their customers are satisfied. But industry observers suggest that this would be extremely foolish, given the fact that a sizable percentage of bank customers say they are less satisfied today with the services they get than they were a few years ago.

As further support for their concern, these analysts point out that it is the wealthier commercial bank customers who are least likely to be very satisfied and the most likely to have become less satisfied than they were a few years ago.

Among the people who identify commercial banks as their principal institution and who earn under $30,000, 58% are very satisfied. This compares with 44% who are very satisfied in the group earning $30,000 and over.

For thrift institutions, the results are reversed. Fifty-nine percent of those earning under $30,000 are very satisfied, compared to 67% who are very satisfied in the group earning over $30,000. And for credit unions, the trend is also toward more satisfaction at higher incomes.

Additionally, a higher percentage of commercial bank customers earning over $30,000 annually are less satisfied than those who are more satisfied. The reverse is true for thrifts and credit unions. Both show that a higher number of people in the upper income ranges are more satisfied than less satisfied.

"Of all three of the depository institutions, commercial banks do the least well in serving their own affluent," remarked Marilyn Barnewall, president of the MacGruder Agency, a marketing consultancy whose principal business is advising on banking programs for the affluent.

"Of course credit union members are happier. If they couldn't serve the needs of the market with car loans, education loans, and mortgages, they'd be in trouble. Nobody goes to a credit union to ask for $200,000 to invest in thoroughbreds or oil and gas ventures. People ask less of them and then are satisfied when they get it," Ms. Barnewall said.

Least satisfied of all consumers in the American Banker's survey, however, are those identifying either a stockbroker, an insurance company, a finance company, a mutual or a money market fund as their principal institution. (The number of people identifying an institution other than one of the three insured depositories as principal was too small for detailed analysis.)

Nonetheless, it is clear from the data that people who choose one of these nonbanks as their principal institution are less likely than those choosing commercial banks to have seriously considered moving to another principal institution over the past few years. Those calling credit unions their principal are least likely to have considered moving.

A quarter of the consumers calling commercial banks their principal institution say they've seriously considered leaving the bank for another institution. As reasons for this, most cite higher service fees and minimum balance requirements as well as less personal service.

Several retail bankers were asked whether they thought that a quarter was a lot of customers to have seriously considered moving elsewhere. Most said the figure sounded a bit high to them. They normally expect customer turnover rates of anywhere between 8% and 20%, depending on the area of the country.

While commercial bank customers most often cite higher service charges and less personal service as reasons for having seriously considered leaving, credit union members cite incompetent personnel and the desire for an institution which is more convenient.

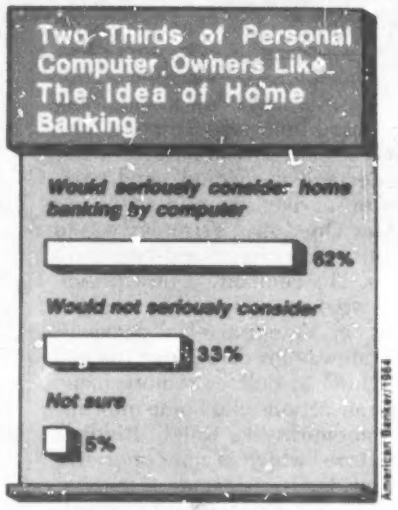
"That's interesting to note," said Edward Furash, the Washington, D.C., banker-turned-consultant.

"Credit unions may get such high marks not because they give better service but because they give a better sense of identity.

How Consumer America Views the Changing Financial Services Industry

Computer Owners Friendly to Home Banking

18% of Respondents Own a Personal Computer



Two-thirds of the consumers who own personal computers say they'd seriously consider using the machines to bank at home, according to the *American Banker's* new consumer opinion poll.

And almost as many in this group say they are comfortable with the idea of home banking by computer. They gave these responses last summer in telephone interviews that were part of a 1,000-household survey conducted for the *American Banker* by Reichman Research Inc., a New York-based opinion research firm.

Two sets of questions were asked regarding the future delivery of financial services through personal computers. The first attempted to gauge the level of personal computer ownership today. The second asked the owners what their feelings were about using these machines to conduct routine financial transactions.

The results indicate that "projecting acceptance of home banking will require more than just counting the number of personal computers sold," noted Stephen K. O'Brien, vice president of Reichman Research.

(In terms of the actual situation, 18 home banking programs are in full commercial operation today and another 25 pilot tests are under way. They are listed in the *American Banker* table on page 8 and are discussed in an article starting on page 6. The latest entrant is Manufacturers Hanover Trust Co., in the New York area.)

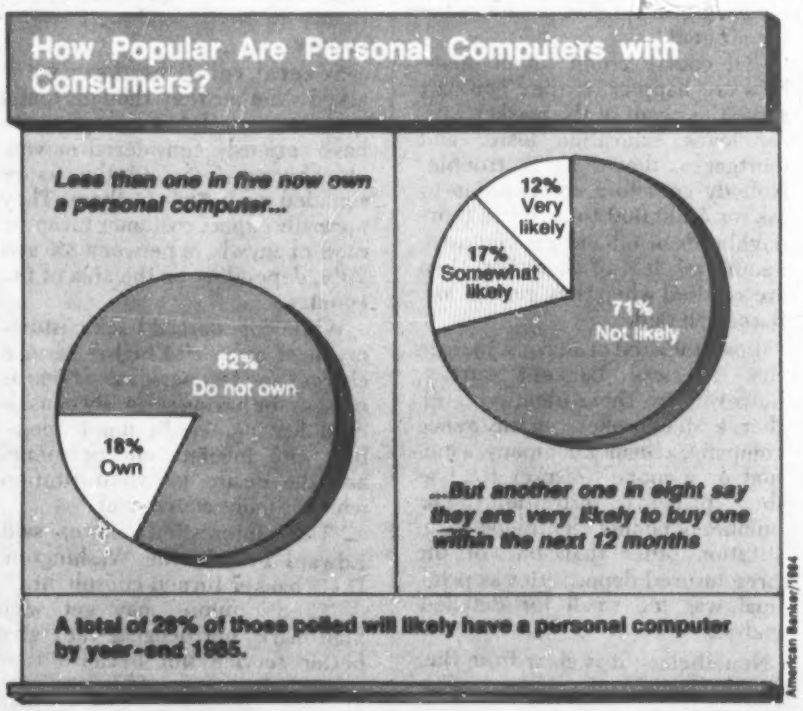
Eighteen percent of the respondents say they own a personal computer. Twelve percent say they are very likely to buy one in the next 12 months, and 17% say they are somewhat likely to buy. But only two-thirds of the owners, Mr. O'Brien pointed out, say they would like home banking.

Some bankers, when asked to assess the survey results, said they thought a figure of 18% for households with home computers sounded too high. They wondered whether some people who report having computers have the kind without modems — the devices necessary for communication between computers that make home banking possible.

It is probable that some of the people who report owning computers actually have only game-playing devices that can be hooked up to television sets.

According to a report prepared by Murali Anantharaman, a senior consultant at CSP International, a New York-based communications consulting firm, there will be 4.5 million households with personal computers by the end of this year. These data exclude computers that are exclusively for playing games.

Link Resources Corp., N.Y., which also projects computer ownership, said in a recent report that there were nearly 6.4 million home computers at yearend 1983 and that an additional 5 million were scheduled to be shipped during 1984, bringing the projected yearend figure to 11.4 million. These figures include computers costing under $300 that can solely be used for game playing.


How Popular Are Personal Computers with Consumers?
Less than one in five now own a personal computer...
82% Do not own
18% Own
12% Very likely
17% Somewhat likely
71% Not likely
...But another one in eight say they are very likely to buy one within the next 12 months
A total of 28% of those polled will likely have a personal computer by year-end 1985.
American Banker/1984

Some 11% of All U.S. Households

Despite the differing projections on actual computer ownership, the *American Banker's* data suggest that the number of people who would seriously consider home banking today is about 11% of all U.S. households.

Since there is no indication of how much money this 11% would be willing to spend for what is still an expensive new technology, some bankers suggest that the banks that are now offering this service are doing so a bit before its time.

Others maintain that 10% or 11% is a very high level of acceptance so early in the home banking game.

One who thinks it is still too soon to offer home banking is G. Lynn Shostack, senior vice president, Bankers Trust Co. According to Ms. Shostack, "A professional marketer would probably tell you, based on the survey data, that those who are experimenting today are ahead of the marketplace.

"Banking by computer is clearly a future inevitability because ownership of personal computers is clearly rising. It's like TV sets — eventually every household will have one. But you can't take a statistic like 'one out of every 11 people will consider home banking by computer' and say anything other than that is a very small number who actually would do it right now," she said.

"These figures, while very high by my expectations, show that the market is not quite big or ready enough to have home banking by computer be a widespread phenomenon. It's probable that you'll have to wait until computer ownership gets to be 50%-70% of the population if you can only count on about two-thirds acceptance among personal computer owners."

Her comments reflect those of Reichman Research's Mr. O'Brien, who concluded that "projecting the acceptance of home banking will require more than just counting the number of personal computers sold."

Which group of consumers most like computers now?

Among the *American Banker's* sample, 33% of those using a brokerage firm own a personal computer today. This compares to 17% of people calling commercial banks their principal institution.

Along with brokerage customers who own home computers, money market or mutual fund and finance company customers are most likely to consider home banking by computer.

Even so, Jim Settel, senior vice president of Prudential-Bache Securities, commenting on the survey, said, "My feeling is that, in these home banking programs, people are being asphyxiated with information that is not customized for their use. Until such time as we can design systems for consumers that allow them beforehand to choose the information they want, we'll end up creating data dyslexia, a new social disease.

"We'll be ready when we refine our information-delivery techniques to allow the customers to customize the information they need without having to go through the menus, tree structures, branches, and that whole forest of information," quipped Mr. Settel.

A figure of 33% of brokerage customers owning personal computers seemed astronomical to Mr. Settel, who noted, "The key fact is what percent of these people have communication capability in those computers — some sort of modem. That will be the key to determining whether remote delivery of finan-

▶▶ Home Banking: Page 15